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—

Gain on sale of business (Note 3)

—

(20

)

—

Deferred tax benefit

(20

)

(37

)

(17

)

Other, net

10

9

18

Changes in operating assets and liabilities, net of effects from acquisitions and other
investments, and dispositions:

Accounts receivable, prepaid expenses and other assets

(24

)

(31

)

(26

)

Accounts payable, accrued expenses and other liabilities

7

13

18

Deferred merchant payables

21

15

(9

)

Income tax receivables/payables, net

20

32

60

Deferred revenue

1

7

9

Net cash provided by operating activities

321

418

407

Investing activities:

Capital expenditures, including internal-use software and website development

(72

)

(109

)

(81

)

Acquisitions and other investments, net of cash acquired (Note 3)

(43

)

(29

)

(331

)

Proceeds from sale of business, net of cash sold (Note 3)

—

25

—

Purchases of marketable securities

(166

)

(205

)

(251

)

Sales of marketable securities

84

187

336

Maturities of marketable securities

32

71

93

Other investing activities, net

2

2

1

Net cash used in investing activities

(163

)

(58

)

(233

)

Financing activities:

Repurchase of common stock (Note 15)

(105

)

—

—

Proceeds from Chinese credit facilities

7

4

13

Payments to Chinese credit facilities

(1
)

(41
)

(3
)

Principal payments on 2011 credit facility

—

(300

)

(40

)

Proceeds from 2015 credit facility, net of financing costs

101

287

—

Payments to 2015 credit facility

(210

)

(90

)

—

Proceeds from 2016 credit facility, net of financing costs

73

—

—

Proceeds from exercise of stock options

7

12

3

Payment of withholding taxes on net share settlements of equity awards

(15

)

(73

)

(33

)

Other financing activities, net

—

12

(1

)

Net cash used in financing activities

(143

)

(189

)

(61

)

Effect of exchange rate changes on cash and cash equivalents

(17

)

(12

)

(9

)

Net (decrease) increase in cash and cash equivalents

(2

)

159

104

Cash and cash equivalents at beginning of period

614

455

351

Cash and cash equivalents at end of period

\$

612

\$

614

\$

455

Supplemental disclosure of cash flow information:

Cash paid during the period for income taxes, net of refunds

\$
29

\$
43

\$
54

Cash paid during the period for interest

\$
10

\$

7

\$

7

Supplemental disclosure of non-cash investing and financing activities:

Stock-based compensation capitalized with internal-use software and website
development costs

\$

12

\$

8

\$

8

Capitalization of construction in-process related to build to suit lease

\$

—

\$

6

\$

52

Capital expenditures incurred but not yet paid related to build to suit lease

\$

—

\$

—

\$

10

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

75

TRIPADVISOR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND BUSINESS DESCRIPTION

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

On December 20, 2011 Expedia, Inc. completed a spin-off of TripAdvisor into a separate publicly traded Delaware corporation. We refer to this transaction as the “Spin-Off.” TripAdvisor’s common stock began trading on the NASDAQ as an independent public company on December 21, 2011 under the trading symbol “TRIP.”

On December 11, 2012, Liberty Interactive Corporation, or Liberty, purchased an aggregate of 4,799,848 shares of common stock of TripAdvisor from Barry Diller, our former Chairman of the Board of Directors and Senior Executive, and certain of his affiliates (the “Stock Purchase”). As a result, Liberty beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock.

On August 27, 2014, the entire beneficial ownership of our common stock and Class B common stock held by Liberty was acquired by Liberty TripAdvisor Holdings, Inc., or LTRIP. Simultaneously, Liberty, LTRIP’s former parent company, distributed, by means of a dividend, to the holders of its Liberty Ventures common stock, Liberty’s entire equity interest in LTRIP. We refer to this transaction as the Liberty Spin Off. As a result of the Liberty Spin-Off, effective August 27, 2014, LTRIP became a separate, publicly traded company holding 100% of Liberty’s interest in TripAdvisor.

As a result of these transactions, as of December 31, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 13.8% 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 21.5% of the outstanding common stock. Because each share of Class B common stock is generally 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 approximately 56.4% of our voting power.

Description of Business

TripAdvisor is an online travel company, empowering users to plan and book the perfect trip. TripAdvisor’s travel platform aggregates reviews and opinions of members about destinations, accommodations, activities and attractions, and restaurants throughout the world so that our users have access to trusted advice wherever their trips take them. Our platform helps users plan their trips with our unique user-generated content and enables users to compare real-time pricing and availability so that they can book hotels, flights, cruises, vacation rentals, activities and attractions, and restaurant reservations.

Our flagship brand is TripAdvisor. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 48 markets worldwide. In addition to the flagship TripAdvisor brand, we manage and operate 23 other media brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector, which include; www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.com, www.cruise critic.com, www.familyvacationcritic.com, www.flipkey.com, www.gateguru.com,

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Seasonality

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel advertisers to market to potential travelers, and, therefore, our financial performance, tend to be seasonal as

well. As a result, our financial results tend to be seasonally highest in the third quarter of a year, as it is a key period for travel research and trip-taking, 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

Basis of Presentation and Consolidation

The accompanying 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. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). We believe that the assumptions underlying our consolidated financial statements are reasonable. However, these consolidated financial statements do not present our future financial position, the results of our future operations and cash flows.

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

Accounting Estimates

We use estimates and assumptions in the preparation of our 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 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 consolidated financial statements include: (i) recognition and recoverability of goodwill, intangible and other long-lived assets; (ii) accounting for income taxes; (iii) purchase accounting for business combinations; and (iv) stock-based compensation.

Reclassifications

Refer to our discussion in “Recently Adopted Accounting Pronouncements” below for required prior period reclassifications resulting from the early adoption of new accounting guidance. All other reclassifications, made to conform the prior period to the current presentation, were not material and had no net effect on our consolidated financial statements.

Revenue Recognition

We recognize revenue from our services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Deferred revenue, which primarily relates to our subscription-based and

commission based arrangements, is recorded when payments are received in advance of our performance as required by the underlying agreements.

Click-based advertising and transaction revenue. Click-based revenue is derived primarily from click-through fees charged to our travel partners for traveler leads sent to the travel partners' website. We record revenue from click-through fees in the same period as when the traveler makes the click-through to the travel partners' website. Our instant booking transaction model revenue is comprised of commissions earned on all valid instant booking reservations. In a transaction model, our instant booking commission revenue is recorded at the time a traveler books a hotel transaction on our partner's site where we, as facilitator for such booking, do not assume associated cancellation risk. Under the other instant booking model, called the consumption model, we assume cancellation risk

associated with booking, and we record that revenue in the month in which the traveler's stay at a hotel occurs. We have no post-booking service obligations for all instant booking transactions, regardless of the model chosen.

Display-based and subscription-based advertising. We recognize display-based advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract. Subscription-based advertising revenue is recognized ratably over the related contractual period over which service is delivered.

Attractions. We work with local operators, or merchant partners, to provide travelers with access to tours and activities in popular destinations worldwide, earning a commission for such service. While the merchant of record, we receive cash from the consumer at the time of booking of the destination activity and record these amounts, net of commissions, as deferred merchant payables on our consolidated balance sheet. Commission revenue is recorded as deferred revenue at the time of booking and later recognized when the consumer has completed the destination activity. We pay the destination activity operators after the travelers' use. In transactions where we are not the merchant of record, we invoice and receive commissions directly from our merchant partners and record commission revenue when the consumer has completed the destination activity.

Restaurants. We recognize reservation revenues (or per seated diner fees) on a transaction-by-transaction basis as diners are seated by our restaurant customers. Subscription-based revenue is recognized ratably over the related contractual period over which the service is delivered.

Vacation Rentals. We generate revenue from customers for online advertising services related to the listing of their properties for rent primarily on either a subscription basis over a fixed-term, or on a commission basis for transactions that are booked on our platform. Payments for term-based subscriptions received in advance of services being rendered are recorded as deferred revenue and recognized ratably to revenue on a straight-line basis over the listing period. Our commission revenue is primarily generated on our free-to-list option, in lieu of a pre-paid subscription fee. When a commissionable transaction is booked on our platform, we receive cash from the traveler that includes both our commission, which is recorded as deferred revenue, and the amount due to the property owner, which is recorded to deferred merchant payables on our consolidated balance sheet. We pay the amount due to the property owner and recognize our commission revenue at the time of the traveler's stay. Additional revenues are also derived on a pay-per-lead basis, as we provide leads for rental properties to property managers. Pay-per-lead revenue is billed and recognized in the period when the leads are delivered to the property managers.

Cost of Revenue

Cost of revenue consists of expenses that are directly related or closely correlated to revenue generation, including direct costs, such as ad serving fees, flight search fees, credit card fees and other transaction costs, and data center 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.

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, and public relations. In addition, our indirect sales and marketing expense consists of personnel and overhead expenses, including salaries, commissions, benefits, stock-based compensation and bonuses for sales, sales support, customer support and marketing employees.

Technology and Content

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

General and Administrative

General and administrative expenses consist primarily of personnel and related overhead costs, including personnel engaged in executive leadership, finance, legal, and human resources, including stock-based compensation. 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 and charitable contributions.

Cash, Cash Equivalents and Marketable Securities

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

Our cash equivalents consist of highly liquid investments with maturities of 90 days or less at the date of purchase. In addition, we reevaluate at each reporting period the classification of our money market fund investments as cash equivalents, including the enactment of liquidity fees or redemption gates, if any, which may result in such money market fund investments being reclassified to short-term marketable securities. We classify our marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date and as to whether and when we intend to sell a particular security prior to its maturity date. Marketable debt securities with maturities greater than 90 days at the date of purchase and 12 months or less remaining at the balance sheet date will be classified as short-term and marketable debt securities with maturities greater than 12 months from the balance sheet date will generally be classified as long-term. We classify our marketable equity securities, limited to money market funds and mutual funds, as either short-term or long-term based on the nature of each security and its availability for use in current operations. Our marketable debt and equity securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income (loss) as a component of stockholders' equity. Fair values are determined for each individual security in the investment portfolio.

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

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

Cash consists of cash deposits held in global financial institutions.

Other Investments

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We record investments using the equity method generally when we have the ability to exercise significant influence over the investee. Equity investments without readily determinable fair values for which we do not have the ability to exercise significant influence are accounted for using the cost method of accounting and classified within long-term investments and other assets. Under the cost method, investments are carried at cost and are

adjusted only for other-than-temporary declines in fair value, certain distributions, and additional investments. As of December 31, 2016 and 2015, we had \$14 million and \$0 million of cost method investments, respectively, recorded in other long-term assets on our consolidated balance sheets.

Fair Value Measurements

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

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

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

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

Derivative Financial Instruments

Our goal in managing our foreign currency exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. We do not use derivatives for trading or speculative purposes. We account for our derivative instruments as either assets or liabilities and carry them at fair value.

In certain circumstances, we enter into foreign currency forward exchange contracts (“forward contracts”) to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. Our derivative instruments or forward contracts entered into which are not designated as hedges as of December 31, 2016 are disclosed below in “Note 6— Financial Instruments” in the notes to the consolidated financial statements. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through current income. Monetary assets and liabilities denominated in a currency other than the functional currency of a given subsidiary are remeasured at spot rates in effect on the balance sheet date with the effects of changes in spot rates reported in other, net on our consolidated statements of operations. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not expected to be significant due to the short-term nature of the contracts, which to date, have had maturities at inception of 90 days or less. The net cash received or paid related to our derivative instruments are classified in other investing activities in our consolidated statements of cash flow.

We have not entered into any cash flow, fair value or net investment hedges as of December 31, 2016.

Accounts Receivable and Allowance for Doubtful Accounts

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Accounts receivable are generally due within 30 days and are recorded net of an allowance for doubtful accounts. We record accounts receivable at the invoiced amount. Collateral is not required for accounts receivable. We consider accounts outstanding longer than the contractual payment terms as past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due,

previous loss history, a specific customer's ability to pay its obligations to us, and the condition of the general economy and industry as a whole.

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

	December 31,		
	2016	2015	2014
	(in millions)		
Allowance for doubtful accounts:			
Balance, beginning of period	\$6	\$7	\$3
Charges (recoveries) to earnings	4	3	3
Write-offs, net of recoveries and other adjustments	(1)	(4)	1
Balance, end of period	\$9	\$6	\$7

Property and Equipment, Including Website and Software Development Costs

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

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

Leases

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

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

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We establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition for asset retirement obligations. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs and are included in other long-term liabilities on our consolidated balance sheet. Our asset retirement obligations were not material as of December 31, 2016 and December 31, 2015, respectively.

Business Combination

We account for acquired businesses using the purchase method of accounting which requires that the tangible assets and identifiable intangible assets acquired and assumed liabilities be recorded at the date of acquisition at their respective fair values. Any excess purchase price over the estimated fair value of the net tangible and intangible assets acquired is allocated to goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer and supplier relationships, acquired technology and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate.

In September 2015, the FASB issued new accounting guidance for measurement-period adjustments in a business combination. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and eliminates the requirement to account for measurement-period adjustments retrospectively. The effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. The guidance was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years with early adoption permitted for financial statements that have not been issued. The Company adopted this guidance in the first quarter of 2016 and had no material impact on our consolidated financial statements and related disclosures.

Recoverability of Goodwill and Indefinite-Lived Intangible Assets

Goodwill

We assess goodwill, which is not amortized, for impairment annually during the fourth quarter, or more frequently, if events and circumstances indicate impairment may have occurred. We test goodwill for impairment at the reporting unit level. Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. We evaluate our reporting units when changes in our operating structure occur, and if necessary, reassign goodwill using a relative fair value allocation approach. Once goodwill has been allocated to the reporting units, it no longer retains its identification with a particular acquisition and becomes identified with the reporting unit in its entirety. Accordingly, the fair value of the reporting unit as a whole is available to support the recoverability of its goodwill.

In the evaluation of goodwill for impairment, we generally first perform a qualitative assessment to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that the estimated fair value of the reporting unit is less than the carrying amount. However, the Company has the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Periodically, we may choose to forgo the initial qualitative assessment and proceed directly to a quantitative analysis to assist in our annual evaluation. When assessing goodwill for impairment, our decision to perform a qualitative impairment assessment for an individual reporting unit in a given year is influenced by a number of factors, such as the size of the reporting unit's goodwill, the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, and the amount of time in between quantitative fair value assessments and the date of acquisition to establish an updated baseline quantitative analysis. During a qualitative assessment, if we determine that it is not more likely than not that the implied fair value of the goodwill is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the implied fair value of the goodwill is less

than its carrying amount, we then perform a quantitative assessment and compare the estimated fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its estimated fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

In determining the estimated fair values of reporting units in a quantitative goodwill impairment test, we generally use a blend, of the following recognized valuation methods: the income approach (discounted cash flows model) and the market valuation approach, which we believe compensates for the inherent risks of using either model on a stand-alone basis. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that we expect the reporting units to generate in the future. Our significant estimates in the discounted cash flows model include: weighted average cost of capital; long-term rate of growth and profitability of the reporting unit; income tax rates and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison to comparable publicly traded firms in similar lines of business and other precedent transactions. Our significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and/or income multiples in estimating the fair value of the reporting units. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate. We believe that the estimated fair values assigned to our reporting units in impairment tests are based on reasonable assumptions that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates. The use of different assumptions, estimates or judgments could trigger the need for an impairment charge, or materially increase or decrease the amount of any such impairment charge.

Indefinite-Lived Intangible Assets

Intangible assets that have indefinite lives are not amortized and are tested for impairment annually during the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Similar to the qualitative assessment for goodwill, we may assess qualitative factors to determine if it is more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount. If we determine that it is not more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount, we compare the implied fair value of the indefinite-lived asset with its carrying amount. If the carrying value of an individual indefinite-lived intangible asset exceeds its implied fair value, the individual asset is written down by an amount equal to such excess. The assessment of qualitative factors is optional and at our discretion. We may bypass the qualitative assessment for any indefinite-lived intangible asset in any period and resume performing the qualitative assessment in any subsequent period. We base our measurement of fair value of indefinite-lived intangible assets, which consist of trademarks and tradenames as of December 31, 2016, using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate future revenues, the appropriate royalty rate and the weighted average cost of capital, however, such assumptions are inherently uncertain and actual results could differ from those estimates. The use of different assumptions, estimates or judgments could trigger the need for an impairment charge, or materially increase or decrease the amount of any such impairment charge.

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

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

Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the

value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we assess the recoverability of the asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset of the group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair

value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured by the amount that the carrying values, of such asset groups, exceed their fair value and would be included in operating income on the consolidated statement of operations. We have not identified any circumstances that would warrant an impairment charge for any recorded definite lived or other long term assets, including our cost method investments, on our consolidated balance sheet at December 31, 2016.

Income Taxes

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

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in a future tax return. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination.

Foreign Currency Translation and Transaction Gains and Losses

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

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

Accordingly, we have recorded foreign currency exchange losses of \$4 million, \$4 million and \$10 million for the years ended December 31, 2016, 2015 and 2014, respectively, in interest income and other, net on our consolidated statement of operations. These amounts also include gains and losses, realized and unrealized, on foreign currency forward contracts.

Advertising Expense

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We incur advertising expense, which includes traffic generation costs from search engines, affiliate program commissions, display advertising, and other online, and offline (including television) advertising expense, promotions and public relations to promote our business. We expense the costs associated with communicating the advertisements in the period in which the advertisement takes place. We initially capitalize and then expense the production costs associated with television advertisements in the period in which the advertisement first takes place.

For the years ended December 31, 2016, 2015 and 2014, we recorded advertising expense of \$543 million, \$507 million, and \$341 million, respectively, in selling and marketing expense on our consolidated statements of operations. As of December 31, 2016 and 2015, we had \$5 million and \$2 million, respectively, of prepaid marketing expenses included in prepaid expenses and other current assets on our consolidated balance sheets. We expect to fully expense our prepaid marketing asset of \$5 million as of December 31, 2016 to the consolidated statement of operations during 2017.

Stock-Based Compensation

Stock Options. The exercise price for all stock options granted by us to date has been equal to the market price of the underlying shares of common stock at the date of grant. In this regard, when making stock option awards, our practice is to determine the applicable grant date and to specify that the exercise price shall be the closing price of our common stock on the date of grant. The estimated grant-date fair value of stock options is calculated using a Black-Scholes Merton option-pricing model (“Black-Scholes model”). The Black-Scholes model incorporates assumptions to fair value stock-based awards, which includes the risk-free rate of return, expected volatility, expected term and expected dividend yield.

Our risk-free interest rate is based on the rates currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period most closely approximates the stock option’s expected term assumption. Our expected volatility is calculated by equally weighting the historical volatility and implied volatility on our own common stock. Historical volatility is determined using actual daily price observations of our common stock price over a period equivalent to or approximate to the expected term of our stock option grants to date. Implied volatility represents the volatility calculated from the observed prices of our actively traded options on our common stock, with remaining maturities in excess of six months and market prices approximate to the exercise prices of the stock option grant. We have estimated our expected term using historical exercise behavior and expected post-vest termination data for all 2016 and 2015 stock option grants. We estimated our expected term for all 2014 stock option grants using the simplified method, as we did not have sufficient historical exercise data on our common stock at that date from Spin-Off. Our expected dividend yield is zero, as we have not paid any dividends on our common stock to date and do not expect to pay any cash dividends for the foreseeable.

Our stock options generally have a term of ten years from the date of grant and generally vest equally over a four-year requisite service period. We amortize the grant-date fair value of our stock option grants as stock-based compensation expense over the vesting term on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date.

Restricted Stock Units. RSUs are stock awards that are granted to employees entitling the holder to shares of our common stock as the award vests. RSUs are measured at fair value based on the number of shares granted and the quoted price of our common stock at the date of grant. We amortize the fair value of RSUs as stock-based compensation expense over the vesting term of generally four years on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date.

Performance-based stock options and RSUs vest upon achievement of certain company-based performance conditions and a requisite service period. On the date of grant, the fair value of a performance-based award is calculated using the same method as our service based stock options and RSUs described above. We then assess whether it is probable that the individual performance targets would be achieved. If assessed as probable, compensation expense will be recorded for these awards over the estimated performance period. At each reporting period, we will reassess the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets

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requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive these awards, and subsequent events are not indicative of the reasonableness of our original estimates of fair value. In the third quarter of 2016 we adopted new accounting guidance from the FASB on stock compensation, or ASU 2016-09, as described in “Recently Adopted Accounting Pronouncements” below and have elected to account for forfeitures as they occur, rather than continue to estimate expected forfeitures.

Treasury Stock

Shares of our common stock repurchased are recorded at cost as treasury stock and result in the reduction of stockholders' equity in our consolidated balance sheet. We may reissue these treasury shares. When treasury shares are reissued, we use the average cost method for determining the cost of reissued shares. If the issuance price is higher than the cost, the excess of the issuance price over the cost is credited to additional paid-in-capital. If the issuance price is lower than the cost, the difference is first charged against any credit balance in additional paid-in-capital from the previous issuances of treasury stock and the remaining balance is charged to retained earnings.

Deferred Merchant Payables

We receive cash from travelers at the time of booking related to our vacation rental, attractions and transaction-based businesses and we record these amounts, net of commissions, on our consolidated balance sheets as deferred merchant payables. We pay the hotel, attraction provider or vacation rental owner after the travelers' use and subsequent billing from the hotel, attraction provider or vacation rental owner. Therefore, we receive cash from the traveler prior to paying the hotel, attraction provider or vacation rental owner, and this operating cycle represents a working capital source or use of cash to us. As long as these businesses grow, we expect that changes in working capital related to these transactions, depending on timing of payments and seasonality, will continue to impact operating cash flows. Our deferred merchant payables balance was \$128 million and \$105 million for the years ended December 31, 2016 and 2015, respectively, on our consolidated balance sheets.

Credit Risk and Concentrations

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of cash and cash equivalents, corporate debt securities, foreign currency exchange contracts, accounts receivable and customer concentrations. We maintain some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits. Our cash and cash equivalents are primarily composed of bank account balances with financial institutions primarily denominated in U.S. dollars, Euros, British pound sterling, and Australian dollars, as well as, money market funds. We invest in highly-rated corporate debt securities, and our investment policy limits the amount of credit exposure to any one issuer, industry group and currency. Our credit risk related to corporate debt securities is also mitigated by the relatively short maturity period required by our investment policy. Foreign currency exchange contracts are transacted with various international financial institutions with high credit standings, which generally have maturities of less than 90 days.

Our business is also subject to certain risks due to concentrations related to dependence on our relationships with our customers. For the years ended December 31, 2016, 2015 and 2014 our two most significant advertising partners, Expedia and Priceline, each accounted for more than 10% of our consolidated revenue and combined accounted for 46%, 46% and 46%, respectively, of our consolidated revenue. Nearly all of this concentration of revenue is recorded in our Hotel segment for these reporting periods. As of December 31, 2016 and 2015, Expedia accounted for 12% and 11%, respectively, of our total accounts receivable. Our overall credit risk related to accounts receivable is mitigated by the relatively short collection period.

Contingent Liabilities

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

Comprehensive Income (Loss)

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

Earnings Per Share (“EPS”)

We compute basic earnings per share by taking net income divided by the weighted average number of common and Class B common shares outstanding during the period. Diluted earnings per share include 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 earnings per share by dividing net income by the sum of the weighted average number of common and common equivalent shares outstanding during the period. For additional information on how we compute earnings per share, see Note 5 — Earnings Per Share.

New Accounting Pronouncements Not Yet Adopted

In January 2017, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance which assist entities in evaluating when a set of transferred assets and activities is a business. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and will be applied prospectively to any transactions occurring within the period of adoption. Early adoption is permitted, including for interim or annual periods in which the financial statements have not been issued or made available for issuance. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued new accounting guidance to simplify the accounting for goodwill impairment. The guidance removes Step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019 with early adoption permitted for any goodwill impairment tests performed after January 1, 2017 and will be applied prospectively. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued new accounting guidance which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flow. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early

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adoption permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. Upon adoption, an entity may apply the new guidance only retrospectively to all prior periods presented in the financial statements. We anticipate adopting this new guidance on January 1, 2018, on a retrospective basis, with no material impact on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued new accounting guidance which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control within the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We anticipate adopting this new guidance on January 1, 2017, on a retrospective basis, with no 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. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Upon adoption, an entity may apply the new guidance only on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures and our intended adoption date.

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. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Upon adoption, an entity may apply the new guidance only retrospectively to all prior periods presented in the financial statements. We anticipate adopting this new guidance on January 1, 2018, on a retrospective basis, and it is not expected to have a material impact 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 in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures and our intended adoption date.

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In February 2016, the FASB issued new accounting guidance on leases that is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet at the present value of the lease payments. The new guidance will classify leases as either finance or operating leases, with classification determining the presentation of expenses and cash flows on our consolidated financial statements. The guidance also requires new disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15,

2018, with early adoption permitted, which will require the recognition and measurement of leases at the beginning of the earliest comparative period presented in the financial statements using a modified retrospective approach. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, as well as still determining our adoption date. We anticipate giving additional updates on our Form-10Q's during the first and second quarters of 2017.

In January 2016, the FASB issued a new accounting update which amends the guidance on the classification and measurement of financial instruments. Although the accounting update retains many current requirements, it significantly revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The accounting update also amends certain fair value disclosures of financial instruments and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity's evaluation of their other deferred tax assets. The update requires entities to carry all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies at fair value, with fair value changes recognized through net income. This requirement does not apply to investments that qualify for equity method accounting, investments that result in consolidation of the investee or investments in which the entity has elected the practicability exception to fair value measurement. Under current U.S. GAAP, the Company's available-for-sale investments in equity securities with readily identifiable market value are remeasured to fair value each reporting period with changes in fair value recognized in accumulated other comprehensive income (loss). However, under the new accounting literature, fair value adjustments will be recognized through net income and could vary significantly quarter to quarter. For the investments currently accounted for under the cost method, an entity can elect to measure its investments, which do not have a readily determinable fair value, 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. Additionally, this accounting update will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. In addition, this accounting update eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is currently required to be disclosed for financial instruments measured at amortized cost in the balance sheet. We anticipate adopting this new guidance on January 1, 2018 and are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers which will replace numerous requirements in GAAP, and provide companies with a single revenue recognition 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 March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The two permitted transition methods under this new accounting guidance are the full retrospective method, in which case the guidance would be applied to each prior reporting period presented and the cumulative effect of applying the guidance would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the guidance would be recognized at the date of initial application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted for fiscal years beginning after December 15, 2016.

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During 2016, we have made measurable progress toward completing our evaluation of the potential changes from adopting the new standard on our future financial reporting and disclosures. We have established a cross-functional implementation team from across our organization and have made significant progress in the review of our contracts portfolio and our current accounting policies and practices to identify potential differences that could result from applying the requirements of the new standard to our revenue contracts. We will continue to evaluate the impact that this new guidance will have, if any, on the Company's consolidated financial statements and related

disclosures and are still determining the method of adoption we will elect for this new guidance. We anticipate adopting this new guidance on January 1, 2018, and plan on giving additional updates on our progress and further conclusions on our Form-10Q's during the first and second quarters of 2017.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued new accounting guidance on stock compensation, or ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the consolidated statement of cash flows. The new guidance permits recognizing the impact of forfeitures on stock-based compensation as they occur or to recognize stock-based compensation expense net of expected forfeitures, requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the consolidated statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statement of cash flows.

We elected to early adopt the new guidance in the third quarter of 2016, which requires us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits and tax deficiencies in our provision for income taxes rather than additional paid-in capital for all periods in 2016. There was no impact to our provision for income taxes as previously reported for 2015 or prior periods. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a retrospective basis. As a result of the retrospective implementation of this guidance, the impact on the consolidated statement of cash flows for the years ended December 31, 2015 and 2014 was an increase of \$36 million and \$20 million in cash flows from operating activities with an offsetting reduction in cash flows from financing activities. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1 million reduction to retained earnings as of January 1, 2016.

Adoption of the new guidance resulted in the recognition of net excess tax expense and benefit in our provision for income taxes rather than additional paid-in capital. As a result, we recorded \$1 million of income tax benefit for the year ended December 31, 2016, and impacted our previously reported quarterly results for the three months ended March 31, 2016 and June 30, 2016, as follows:

	Three months ended March 31, 2016	
	As Reported ⁽¹⁾⁽²⁾	Adjusted
	(in millions, except per share data)	
Consolidated Statement of Operations:		
Operating income	\$42	\$ 42
Provision for income taxes	(11)	(9)

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Net income	27	29
Basic EPS	\$0.19	\$ 0.20
Diluted EPS	\$0.18	\$ 0.20

Consolidated Statement of Cash Flows:

Net cash provided by operating activities	\$120	\$ 124
Net cash used in financing activities	\$(94)	\$ (98)

Three months
ended June 30,
2016

As
As Adjusted
Reported⁽¹⁾
(in millions,
except per share
data)

Consolidated Statement of Operations:

Operating income	\$48	\$ 47
Provision for income taxes	(11)	(10)
Net income	34	34
Basic EPS	\$0.23	\$ 0.23
Diluted EPS	\$0.23	\$ 0.23

Six months ended
June 30, 2016

As
As Adjusted
Reported⁽²⁾
(in millions)

Consolidated Statement of Cash Flows:

Net cash provided by operating activities	\$357	\$ 363
Net cash used in financing activities	\$(123)	\$ (129)

(1) The election to account for forfeitures as they occur did not have a material impact for the three months ended March 31, 2016 and resulted in an increase to stock-based compensation expense of approximately \$1 million for the three months ended June 30, 2016.

(2) Includes the reclassification of cash flows related to excess tax benefits from financing activities to operating activities of \$4 million and \$2 million for the three months ending March 31, 2016 and June 30, 2016, respectively. In April 2015, the FASB issued new accounting guidance which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This standard clarified whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The company prospectively adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

NOTE 3: ACQUISITIONS AND DISPOSITIONS

We acquired a number of businesses during the years ended December 31, 2016, 2015 and 2014. These business combinations were accounted for as purchases of businesses under the acquisition method. The fair value of purchase consideration has been allocated to tangible and identifiable intangible assets acquired and liabilities assumed, based on their respective fair values on the acquisition date, with the remaining amount recorded to goodwill. Acquired goodwill represents the premium we paid over the fair value of the net tangible and intangible assets acquired. We paid a premium in each of these transactions for a number of reasons, including expected operational synergies, the assembled workforces, and the future development initiatives of the assembled workforces. The results of each of these acquired businesses have been included in the consolidated financial statements beginning on the respective acquisition dates. Pro-forma results of operations for these acquisitions have not been presented as the financial impact to our consolidated financial statements, both individually and in aggregate, would not be materially different from historical results. For the years ended December 31, 2016, 2015 and 2014, acquisition-related costs were expensed as incurred and were \$1 million, \$1 million and \$4 million, respectively, and are included in general and administrative expenses on our consolidated statements of operations.

2016 Acquisition of Businesses

During the year ended December 31, 2016, we completed five acquisitions with a total purchase price of \$34 million. The Company paid net cash consideration of \$28 million, which is net of \$4 million of cash acquired, and includes \$2 million in future holdback payments, which we currently plan to settle in Company common stock. The

cash consideration was paid primarily from our U.S. cash. We acquired 100% of the outstanding capital stock of the following companies: Tous Au Restaurant, a leading restaurant event week brand in France, purchased in January 2016; HouseTrip, a European-based vacation rental website, purchased in April 2016; Citymaps, a social mapping platform, purchased in August 2016; Sneat, a provider of a mobile reservation platform for restaurants in France, purchased in October 2016; and Couverts, a provider of an online and mobile reservations platform for restaurants in the Netherlands, purchased in October 2016.

The purchase price allocation of our 2016 acquisitions is preliminary and subject to revision as more information becomes available, but in any case will not be revised beyond twelve months after the acquisition date and any change to the fair value of assets acquired or liabilities assumed will lead to a corresponding change to the purchase price allocable to goodwill in the period the adjustment is determined. The purchase price allocation is not yet finalized for income tax-related balances for Citymaps.

The aggregate purchase price consideration of \$34 million was allocated to the fair value of assets acquired and liabilities assumed as follows, in millions:

	Total
Goodwill (1)	\$ 17
Intangible assets (2)	25
Net tangible assets (liabilities) (3)	(8)
Total purchase price consideration (4)	\$ 34

(1) Goodwill is not deductible for tax purposes.

(2) Identifiable definite-lived intangible assets acquired during 2016 were comprised of trade names of \$4 million with a weighted average life of 10 years, customer lists and supplier relationships of \$4 million with a weighted average life of 6 years, subscriber relationships of \$5 million with a weighted average life of approximately 7 years, and technology and other of \$12 million with a weighted average life of approximately 5 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2016 was 6 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.

(3) Primarily includes cash acquired of \$4 million, accounts receivable of \$2 million, and liabilities assumed, including accrued expenses and deferred merchant payables of \$3 million and \$10 million, respectively, which reflect their respective fair values at acquisition.

(4) Subject to adjustment based on (i) final working capital adjustment calculations to be determined for Sneat and Couverts, and (ii) indemnification obligations for general representations and warranties of the acquired company stockholders.

2016 Other Investments

During the fourth quarter of 2016, we purchased a total of \$14 million of cost method investments in the equity securities of the following privately-held companies: Eatigo International PTE Ltd, a leading restaurant reservation business in southeast Asia; EatWith Media Ltd, an Israeli-based business which helps match travelers with local chefs for a unique dining experience; and Traxo, Inc., a U.S. based company providing software-driven itinerary aggregation and loyalty program management solutions. These investments were recorded to other long-term assets on our consolidated balance sheet on the acquisition date. The cash consideration was paid primarily from our international subsidiaries.

2015 Acquisition of Businesses

During the year ended December 31, 2015, we completed three acquisitions for a total purchase price consideration of \$28 million and paid in cash. The cash consideration was paid primarily from our international subsidiaries. We acquired 100% of the outstanding capital stock of the following companies: ZeTrip, a personal journal app that helps users log activities, including places they have visited and photos they have taken, purchased in January 2015; BestTables, a provider of an online and mobile reservations platform for restaurants in Portugal

and Brazil, purchased in March 2015; and Dimmi, a provider of an online and mobile reservations platform for restaurants in Australia, purchased in May 2015.

The aggregate purchase price consideration of \$28 million was allocated to the fair value of assets acquired and liabilities assumed as follows, in millions:

	Total
Goodwill (1)	\$ 17
Intangible assets (2)	12
Net tangible assets (liabilities)	1
Deferred tax liabilities, net	(2)
Total purchase price consideration (3)	\$ 28

(1) Goodwill is not deductible for tax purposes.

(2) Identifiable definite-lived intangible assets acquired during 2015 were comprised of trade names of \$2 million with a weighted average life of approximately 10 years, customer lists and supplier relationships of \$7 million with a weighted average life of approximately 6 years and technology and other of \$3 million with a weighted average life of approximately 2 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2015 was 6 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.

(3) Subject to adjustment based on indemnification obligations for general representations and warranties of certain acquired company stockholders.

2015 Sale of Business

In August 2015, we sold 100% interest in one of our Chinese subsidiaries to an unrelated third party for \$28 million in cash consideration. Accordingly, we deconsolidated \$11 million of assets (which included \$3 million of cash sold) and \$4 million of liabilities from our consolidated balance sheet and recognized a \$20 million gain on sale of subsidiary in our consolidated statements of operations in “Interest income and other, net” during the year ended December 31, 2015.

2014 Acquisition of Businesses

In August 2014, we completed our acquisition of Viator, Inc., a leading resource for researching and booking destination activities around the world. Our total purchase price was \$192 million, for all the outstanding shares of capital stock of Viator, consisting of approximately \$187 million in cash consideration (or \$132 million, net of cash acquired from Viator of \$55 million) and the value of certain Viator stock options that were assumed. We issued 100,595 TripAdvisor stock options related to the assumed Viator stock options. The fair value of the earned portion of assumed stock options was \$5 million and is included in the purchase price, with the remaining fair value of \$3 million resulting in post-acquisition compensation expense recognized ratably over three years from the date of acquisition. The total cash consideration was paid from one of our U.S. based subsidiaries.

During the year ended December 31, 2014, we completed six other acquisitions for a total purchase price consideration of \$208 million, for which the Company paid total cash consideration of \$199 million, which is net of cash acquired of \$7 million and approximately \$2 million in holdbacks for general representations and warranties of the respective sellers, which has been subsequently paid by the Company. The cash consideration was paid primarily from our international subsidiaries. We acquired 100% of the outstanding shares of capital stock for the following

companies; Vacation Home Rentals, a U.S.-based vacation rental website featuring properties around the world purchased in May 2014; London-based Tripbod, a travel community that helps connect travelers to local experts purchased in May 2014; Lafourchette, a provider of an online and mobile reservations platform for restaurants in Europe purchased in May 2014; MyTable and Restopolis, both providers of an online and mobile reservations platform for restaurants in Italy purchased in October 2014; and Iens, a provider of an online and mobile reservations platform for restaurants in the Netherlands purchased in December 2014. During the year ended December 31, 2014, all 2014 acquisitions accounted for approximately 3% of consolidated revenue for the year.

The aggregate purchase price consideration of \$400 million was allocated to the fair value of assets acquired and liabilities assumed as follows, in millions:

	Total
Goodwill (1)	\$253
Intangible assets (2)	194
Net tangible assets (liabilities) (3)	(7)
Deferred tax liabilities, net	(40)
Total purchase price consideration	\$400

- (1) Goodwill in the amount of \$5 million is expected to be deductible for tax purposes.
- (2) Identifiable definite-lived intangible assets acquired during 2014 were comprised of trade names of \$44 million with a weighted average life of 10 years, customer lists and supplier relationships of \$82 million with an approximate weighted average life of 7 years, subscriber relationships of \$25 million with a weighted average life of 6 years and developed technology and other of \$43 million with an approximate weighted average life of 5 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of the companies during 2014 was approximately 7 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.
- (3) Includes assets acquired, including cash of \$62 million and accounts receivable of \$25 million and liabilities assumed, including deferred merchant payables of \$76 million, accrued expenses and other current liabilities of \$15 million and deferred revenue of \$5 million which reflect their respective fair values at acquisition date.

NOTE 4: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

Stock-based Compensation Expense

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Selling and marketing	\$20	\$16	\$13
Technology and content	40	28	27
General and administrative	25	28	23
Total stock-based compensation expense	85	72	63
Income tax benefit from stock-based compensation			
expense	(31)	(26)	(24)
Total stock-based compensation expense, net of			
tax effect	\$54	\$46	\$39

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During the years ended December 31, 2016, 2015 and 2014, we capitalized \$12 million, \$8 million and \$8 million, respectively, of stock-based compensation expense as internal-use software and website development costs.

Stock and Incentive Plans

On December 20, 2011, our 2011 Stock and Annual Incentive Plan became effective and we filed Post-Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 (File No. 333-178637) (the “Prior Registration Statement”) with the Securities and Exchange Commission, registering a total of 17,500,000 shares of our common stock, of which 17,400,000 shares were issuable in connection with grants of equity-based awards under our 2011 Incentive Plan (7,400,000 of which shares were originally registered on the Form S-4 and 10,000,000 of which shares were first registered on the Prior Registration Statement) and 100,000 shares were issuable under our Deferred Compensation Plan for Non-Employee Directors (refer to “Note 14— Employee Benefit Plans” below for information on our Deferred Compensation Plan for Non-Employee Directors).

At our annual meeting of stockholders held on June 28, 2013 (the “Annual Meeting”), our stockholders approved an amendment to our 2011 Stock and Annual Incentive Plan to, among other things, increase the aggregate number of shares of common stock authorized for issuance thereunder by 15,000,000 shares. We refer to our 2011 Stock and Annual Incentive Plan, as amended by the amendment as the “2011 Incentive Plan.”

On September 12, 2014, we filed a Registration Statement on Form S-8 with respect to up to 100,595 shares of our common stock for issuance under the Viator, Inc. 2010 Stock Incentive Plan, as amended (the “Viator Plan”). Pursuant to the Amended and Restated Agreement and Plan of Merger among TripAdvisor LLC; Vineyard Acquisition Corporation and Viator, Inc., dated as of July 24, 2014 (the “Merger Agreement”), Vineyard Acquisition Corporation merged with and into Viator, Inc. with Viator, Inc. surviving as a wholly-owned subsidiary of the Company. In accordance with the Merger Agreement, we assumed certain outstanding options to purchase shares of common stock of Viator granted under the Viator Plan (the “Assumed Options”). As a result of this assumption, the Assumed Options were converted into options to purchase shares of our common stock. We do not intend to grant new equity or equity-based awards under the Viator Plan.

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

As of December 31, 2016, the total number of shares available for issuance under the 2011 Incentive Plan is 15,051,221 shares. All shares of common stock issued in respect of the exercise of options or other equity awards since Spin-Off have been issued from authorized, but unissued common stock.

Stock Based Award Activity and Valuation

2016 Stock Option Activity

During the year ended December 31, 2016, we have issued 1,063,672 of primarily service based non-qualified stock options from the 2011 Incentive Plan. These stock options generally have a term of ten years from the date of grant and generally vest equally over a four-year requisite service period.

A summary of our stock option activity 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, 2015	5,720	\$ 53.71		
Granted	1,064	63.43		
Exercised (1)	(733)) 31.58		
Cancelled or expired	(233)) 70.76		
Options outstanding as of December 31, 2016	5,818	\$ 57.60	5.5	\$ 25
Exercisable as of December 31, 2016	2,796	\$ 42.95	4.3	\$ 24

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(1) Inclusive of 318,773 options, which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the minimum amount of required employee withholding taxes. Potential shares which had been convertible under stock options that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Incentive Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the consolidated statements of cash flows.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on NASDAQ as of

December 31, 2016 was \$46.37. The total intrinsic value of stock options exercised for the years ended December 31, 2016, 2015 and 2014 were \$24 million, \$149 million, and \$75 million, respectively.

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

	December 31,		
	2016	2015	2014
Risk free interest rate	1.20 %	1.58 %	1.79 %
Expected term (in years)	4.85	5.42	5.80
Expected volatility	41.81 %	41.79 %	44.04 %
Expected dividend yield	— %	— %	— %

The weighted-average grant date fair value of options granted, excluding Assumed Options, was \$22.95, \$33.02, and \$46.65 for the years ended December 31, 2016, 2015 and 2014, respectively. The weighted-average grant date fair value of Assumed Options was \$80.31 for the year ended December 31, 2014. The total fair value of stock options vested for the years ended December 31, 2016, 2015 and 2014 were \$28 million, \$36 million, and \$34 million, respectively.

2016 RSU Activity

During the year ended December 31, 2016, we issued 2,015,898 RSUs under the 2011 Incentive Plan for which the fair value was measured based on the quoted price of our common stock on the date of grant. These RSUs generally vest over a four-year requisite service period.

The following table presents a summary of our RSU activity:

	RSUs Outstanding (in thousands)	Weighted Average Grant- Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of December 31, 2015	1,750	\$ 79.02	
Granted	2,016	63.71	
Vested and released (1)	(627)	76.02	
Cancelled	(283)	73.06	
Unvested RSUs outstanding as of December 31, 2016	2,856	\$ 69.35	\$ 132

(1) Inclusive of 173,429 RSUs withheld to satisfy employee minimum tax withholding requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Incentive Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected

as a financing activity within the consolidated statements of cash flows.

Cash received from stock option exercises for the years ended December 31, 2016, 2015 and 2014, respectively, were \$7 million, \$12 million and \$3 million. Total current income tax benefits during the years ended December 31, 2016, 2015, and 2014 associated with the exercise or settlement of TripAdvisor stock-based awards held by our employees were \$21 million, \$63 million and \$32 million, respectively.

Unrecognized Stock-Based Compensation

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

	Stock	
	Options	RSUs
Unrecognized compensation expense	\$ 48	\$ 149
Weighted average period remaining (in years)	2.3	2.8

NOTE 5: EARNINGS PER SHARE

Basic Earnings Per Share Attributable to Common Stockholders

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

Diluted Earnings Per Share Attributable to Common Stockholders

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

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise 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.

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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:

	Year ended December 31,		
	2016	2015	2014
Numerator:			
Net income	\$120	\$198	\$226
Denominator:			
Weighted average shares used to compute			
Basic EPS	145,443	143,836	142,721
Weighted average effect of dilutive securities:			
Stock options	1,129	1,839	2,734
RSUs and other dilutive securities	321	292	345
Weighted average shares used to compute			
Diluted EPS	146,893	145,967	145,800
Basic EPS	\$0.83	\$1.38	\$1.58
Diluted EPS	\$0.82	\$1.36	\$1.55

The following potential common shares related to stock options and RSUs were excluded from the calculation of Diluted EPS because their effect would have been anti-dilutive for the periods presented (in thousands):

	Year ended December 31,		
	2016(1)	2015(2)	2014(3)
Stock options	3,019	2,142	1,450
RSUs	860	562	191
Total	3,879	2,704	1,641

- (1) These totals do not include 125,000 performance based options and 12,799 performance based RSUs representing the right to acquire 137,799 shares of common stock for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.
- (2) These totals do not include 66,666 performance based options and 12,799 performance based RSUs representing the right to acquire 79,465 shares of common stock for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.
- (3) These totals do not include 66,666 performance based options and 44,000 performance based RSUs representing the right to acquire 110,666 shares of common stock, respectively, for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted 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 6: FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Marketable Securities

The following tables show our cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short and long-term marketable securities as of December 31, 2016 and December 31, 2015 (in millions):

	December 31, 2016				Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
	Amortized Cost	Unrealized Gains	Unrealized Losses					
Cash	\$595	\$ —	\$ —	\$595	\$ 595	\$ —	\$ —	
Level 1:								
Money market funds	17	—	—	17	17	—	—	
Level 2:								
U.S. agency securities	23	—	—	23	—	21	2	
U.S. treasury securities	8	—	—	8	—	8	—	
Certificates of deposit	16	—	—	16	—	15	1	
Commercial paper	5	—	—	5	—	5	—	
Corporate debt securities	82	—	—	82	—	69	13	
Subtotal	134	—	—	134	—	118	16	
Total	\$746	\$ —	\$ —	\$746	\$ 612	\$ 118	\$ 16	

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

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

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

There were no material realized gains or losses related to sales of our marketable securities for the years ended December 31, 2016, 2015, and 2014. We consider any individual investments in an unrealized loss position to be temporary in nature and do not consider any of our investments other-than-temporarily impaired as of December 31, 2016.

Derivative Financial Instruments

Our current forward contracts are not designated as hedges and have current maturities of less than 90 days. Consequently, any gain or loss resulting from the change in fair value was recognized in our consolidated statement of operations. We recorded a net gain of \$2 million, \$2 million, and \$1 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to our settled and outstanding forward contracts in our consolidated statements of operations in "Interest income and other, net."

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

	December 31,	
	2016	2015
	(in millions)	
Foreign currency exchange-forward contracts (1)(2)	\$ 6	\$ 25

(1) Derivative contracts address foreign currency exchange fluctuations for the Euro versus the U.S. dollar. The Company was entered into two outstanding derivative contracts as of December 31, 2016.

(2) The fair value of our derivatives are not material for all periods presented and are reported as assets in prepaid expenses and other current assets on our consolidated balance sheets. We measure the fair value of our outstanding or unsettled derivatives using Level 2 fair value inputs, as we use a pricing model that takes into account the contract terms as well as current foreign currency exchange rates in active markets.

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. While we may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated and any credit risk amounts associated with our outstanding or unsettled derivative instruments are deemed to be not material for any period presented.

Other Financial Instruments

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

We also hold investments in equity securities of privately-held companies of approximately \$14 million at December 31, 2016. These investments were purchased during the fourth quarter of 2016, and are accounted for under the cost method and included in "Other long-term assets" in the Company's consolidated balance sheet. As of December 31, 2016, we did not estimate the fair value of these cost-method investments because there were no identified events or

changes in circumstances, since acquisition, which may have a significant adverse impact on the carrying values of these investments. Refer to “Note 3— Acquisitions and Dispositions” above for further information on these investments.

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

NOTE 7: PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following for the periods presented:

	December 31, 2016 2015 (in millions)	
Capitalized software and website development	\$ 153	\$ 127
Building (1)	123	123
Leasehold improvements	39	32
Computer equipment and purchased software	37	36
Furniture, office equipment and other	19	17
	371	335
Less: accumulated depreciation	(111)	(88)
Total	\$260	\$ 247

(1)The Company is deemed for accounting purposes to be the owner of its corporate headquarters building under GAAP, and depreciates the asset over its estimated useful life of 40 years on a straight-line basis. Refer to “Note 13 – Commitments and Contingencies,” for additional information on our corporate headquarters lease.

As of December 31, 2016 and 2015, our recorded capitalized software and website development costs, net of accumulated amortization, were \$86 million and \$71 million, respectively. For the years ended December 31, 2016 and 2015, we capitalized \$62 million and \$52 million, respectively, related to software and website development costs. For the years ended December 31, 2016, 2015 and 2014, we recorded amortization of capitalized software and website development costs of \$46 million, \$37 million and \$30 million, respectively, which is included in depreciation expense on our consolidated statements of operations for those years.

During the year ended December 31, 2016, we retired and disposed of property and equipment, primarily capitalized software and website development and computer equipment, which were no longer in use and fully depreciated with a total cost of \$45 million.

NOTE 8: GOODWILL AND INTANGIBLE ASSETS, NET

The following table summarizes our goodwill activity by segment for the periods presented:

	Hotel	Non-Hotel	Consolidated
	(in millions)		
Balance as of December 31, 2014	\$442	\$ 292	\$ 734
Acquisitions (1)	1	16	17

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Disposition	(1)	—	(1)
Other adjustments (2)	—	(18)	(18)
Balance as of December 31, 2015	\$442	\$ 290	\$ 732
Acquisitions (1)	10	7	17
Other adjustments (2)	(1)	(12)	(13)
Ending balance as of December 31, 2016	\$451	\$ 285	\$ 736

(1)The additions to goodwill relate to our business acquisitions. See “Note 3— Acquisitions and Dispositions,” for further information.

(2)Primarily related to impact of changes in foreign currency exchange rates to goodwill.

Intangible assets, which were acquired in business combinations and recorded at fair value on the date of purchase, consist of the following for the periods presented:

	December 31,	
	2016	2015
	(in millions)	
Intangible assets with definite lives	\$217	\$198
Less: accumulated amortization	(80)	(52)
Intangible assets with definite lives, net	137	146
Intangible assets with indefinite lives	30	30
Total	\$167	\$176

Amortization expense was \$32 million, \$36 million, and \$18 million, respectively, for the years ended December 31, 2016, 2015 and 2014. Our indefinite-lived intangible assets relate to trade names and trademarks.

There were no impairment charges recognized to our consolidated statement of operations during the years ended December 31, 2016, 2015 and 2014 related to our goodwill or indefinite-lived intangible assets.

The following table presents the components of our intangible assets with definite lives for the periods presented:

	Weighted Average Remaining Life (in years)	December 31, 2016			December 31, 2015		
		Gross Carrying Amount (in millions)	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount (in millions)	Accumulated Amortization	Net Carrying Amount
Trade names and trademarks	7.8	\$56	\$ (14)	\$ 42	\$53	\$ (9)	\$ 44
Customer lists and supplier relationships	4.6	84	(31)	53	82	(20)	62
Subscriber relationships	4.8	33	(15)	18	29	(9)	20
Technology and other	3.4	44	(20)	24	34	(14)	20
Total	5.4	\$217	\$ (80)	\$ 137	\$198	\$ (52)	\$ 146

Refer to “Note 3— Acquisitions and Dispositions” above for a discussion of definite lived intangible assets acquired in business combinations during the years ended December 31, 2016 and 2015.

Intangible assets with definite lives are amortized on a straight-line basis. The estimated amortization expense for intangible assets with definite lives for each of the next five years, and the expense thereafter, assuming no subsequent impairment of the underlying assets, is expected to be as follows (in millions):

2017	\$31
2018	28
2019	26
2020	21
2021	14

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2022 and thereafter 17

Total \$137

NOTE 9: DEBT

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

	December 31, 2016	December 31, 2015
(in millions)		
Short-Term Debt:		
Chinese Credit Facilities	\$ 7	\$ 1
2016 Credit Facility	73	—
Total Short-Term Debt (1)	\$ 80	\$ 1
Long-Term Debt:		
2015 Credit Facility	\$ 91	\$ 200
Total Long-Term Debt	\$ 91	\$ 200

(1) The weighted-average interest rate on short-term debt was 2.1% as of December 31, 2016.

2011 Credit Facility

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

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

On June 26, 2015, the entire outstanding principal on our Term Loan in the amount of \$290 million was repaid with borrowings from our 2015 Credit Facility (described below) and the 2011 Credit Facility was subsequently terminated. During the years ended December 31, 2015 and 2014, we recorded total interest and commitment fees on our 2011 Credit Facility of \$3 million and \$6 million, respectively, to interest expense on our consolidated statements of operations. There was no resulting loss on early extinguishment of this debt.

2015 Credit Facility

On June 26, 2015, we entered into a five year credit agreement (the "2015 Credit Facility") with a group of lenders and immediately borrowed \$290 million. The 2015 Credit Facility, among other things, provides for (i) a \$1 billion unsecured revolving credit facility, (ii) an interest rate on borrowings and commitment fees based on the Company's and its subsidiaries' consolidated leverage ratio and (iii) uncommitted incremental revolving loan and term loan facilities, subject to compliance with a leverage covenant and other conditions. Any overdue amounts under or in respect of the revolving credit facility not paid when due shall bear interest at (i) in the case of principal, the applicable interest rate plus 2.00% per annum, (ii) in the case of interest denominated in Sterling or Euro, the applicable rate plus 2.00% per annum and (iii) in the case of interest denominated in US dollars, 2.00% per annum plus the Alternate Base Rate plus the interest rate spread applicable to ABR loans. The Company may borrow from

the revolving credit facility in U.S dollars, Euros and British pound sterling with a term of five years expiring June 26, 2020. We also incurred lender fees and debt financing costs totaling \$3 million in connection with entering into the 2015 Credit Facility, which were capitalized as deferred financing costs and recorded to other long-term assets on the consolidated balance sheet. These costs will continue to be amortized over the term of the 2015 Credit Facility using the effective interest rate method and recorded to interest expense on our consolidated statements of operations.

There is no specific repayment date prior to the five-year maturity date for borrowings under this revolving credit facility. During the year ended December 31, 2016, the Company borrowed an additional \$101 million and repaid \$210 million of our outstanding borrowings on the 2015 Credit Facility. Based on the Company's current leverage ratio, our borrowings bear interest at LIBOR plus 125 basis points, or the Eurocurrency Spread. The

Company is currently borrowing under a one-month interest period of 2.0% per annum, using a one-month interest period Eurocurrency Spread, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period. We are also required to pay a quarterly commitment fee, on the daily unused portion of the revolving credit facility for each fiscal quarter and fees in connection with the issuance of letters of credit. Unused revolver capacity is currently subject to a commitment fee of 20.0 basis points, given the Company's current leverage ratio. The 2015 Credit Facility includes \$15 million of borrowing capacity available for letters of credit and \$40 million for borrowings on same-day notice. As of December 31, 2016, we had issued \$3 million of outstanding letters of credit under the 2015 Credit Facility.

During the years ended December 31, 2016 and 2015, we recorded total interest and commitment fees on our 2015 Credit Facility of \$4 million and \$2 million, respectively, to interest expense on our consolidated statements of operations. All unpaid interest and commitment fee amounts as of December 31, 2016 and 2015, respectively, were not material.

We may voluntarily repay any outstanding borrowing under the 2015 Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to Eurocurrency loans. Certain wholly-owned domestic subsidiaries of the Company have agreed to guarantee the Company's obligations under the 2015 Credit Facility. The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under the 2015 Credit Facility. Additionally, the 2015 Credit Facility includes a subjective acceleration clause, which could be triggered by the lenders, if a representation, warranty or statement made by the Company proves to be incorrect in any material respect, which in turn would permit the lenders to accelerate repayment of any outstanding obligations. The Company believes that the likelihood of the lender exercising this right is remote and, as such, we classify borrowings under this facility as long-term debt. As of December 31, 2016, we are in compliance with all of our debt covenants.

2016 Credit Facility

On September 7, 2016, we entered into an uncommitted facility agreement with Bank of America Merrill Lynch International Limited (the "Lender"), which provides for a \$73 million unsecured revolving credit facility (the "2016 Credit Facility") with no specific expiration date. The 2016 Credit Facility is available at the Lender's absolute discretion and can be canceled at any time. Repayment terms for borrowings under the 2016 Credit Facility are generally one to six month periods and bear interest at LIBOR plus 112.5 basis points. The Company may borrow from the 2016 Credit Facility in U.S dollars only and we may voluntarily repay any outstanding borrowing at any time without premium or penalty. Any overdue amounts under or in respect of the 2016 Credit Facility not paid when due shall bear interest in the case of principal at the applicable interest rate plus 1.50% per annum. In connection with the 2016 Credit Facility, any lender fees and debt financing costs paid were not material. In addition, TripAdvisor, LLC, a wholly-owned domestic subsidiary of the Company, has agreed to guarantee the Company's obligations under the 2016 Credit Facility. There are no specific financial or incurrence covenants.

We borrowed \$73 million from this uncommitted credit facility in September 2016. These funds were used for general working capital needs of the Company, primarily for partial repayment of our long term debt, and the liability is recorded in short-term liabilities on our consolidated balance sheet as of December 31, 2016. The Company is currently borrowing under a one-month interest period of 1.9% per annum, which will reset periodically. Interest will

be payable on a monthly basis while the Company is borrowing under the one-month interest rate period. During the year ended December 31, 2016, total interest recorded with respect to our 2016 Credit Facility to interest expense on our consolidated statement of operations was not material.

Chinese Credit Facilities

In addition to our borrowings under the 2015 Credit Facility and 2016 Credit Facility, we maintain two credit facilities in China (jointly, the “Chinese Credit Facilities”). As of December 31, 2016 and December 31, 2015, we had short-term borrowings outstanding of \$7 million and \$1 million, respectively.

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

We are also parties to a RMB 70,000,000 (approximately \$10 million) one-year revolving credit facility with J.P. Morgan Chase Bank (“Chinese Credit Facility-JPM”) which was reduced from RMB 125,000,000 (approximately \$18 million) during the year ended December 31, 2016. Our Chinese Credit Facility—JPM currently bears interest at a rate based on 100% of the People’s Bank of China’s base rate, which was 4.35% as of December 31, 2016. As of December 31, 2016, we had \$7 million of outstanding borrowings from the Chinese Credit Facility – JPM.

NOTE 10: INCOME TAXES

The following table presents a summary of our domestic and foreign income before income taxes:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Domestic	\$64	\$67	\$146
Foreign	87	172	176
Total	\$151	\$239	\$322

The following table presents a summary of the components of our provision for income taxes:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Current income tax expense:			
Federal	\$38	\$48	\$93
State	2	8	14
Foreign	11	22	6
Current income tax expense	51	78	113
Deferred income tax (benefit) expense:			

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Federal	(12)	(29)	(12)
State	(3)	(2)	(1)
Foreign	(5)	(6)	(4)
Deferred income tax (benefit) expense:	(20)	(37)	(17)
Provision for income taxes	\$31	\$41	\$96

The Company reduced its current income tax payable by \$21 million, \$63 million and \$32 million for the years ended December 31, 2016, 2015 and 2014, respectively, for tax deductions attributable to stock-based compensation.

The significant components of our deferred tax assets and deferred tax liabilities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016 2015 (in millions)	
Deferred tax assets:		
Stock-based compensation	\$52	\$40
Net operating loss carryforwards	46	31
Provision for accrued expenses	12	12
Deferred rent	5	5
Lease financing obligation	33	33
Foreign advertising spend	10	8
Deferred expense related to cost-sharing arrangement	30	20
Charitable contribution carryforward	20	24
Other	7	4
Total deferred tax assets	\$215	\$177
Less: valuation allowance	(27)	(17)
Net deferred tax assets	\$188	\$160
Deferred tax liabilities:		
Intangible assets	\$(83)	\$(81)
Property and equipment	(28)	(27)
Prepaid expenses	(6)	(4)
Building – corporate headquarters	(31)	(31)
Deferred income related to cost-sharing arrangement	(10)	(7)
Total deferred tax liabilities	\$(158)	\$(150)
Net deferred tax asset (liability)	\$30	\$10

At December 31, 2016, we had federal, state and foreign net operating loss carryforwards (“NOLs”) of approximately \$23 million, \$47 million and \$124 million. If not utilized, the federal and state NOLs will expire at various times between 2020 and 2036 and the foreign NOLs will expire at various times between 2017 and 2030.

The valuation allowance on deferred tax assets of \$27 million at December 31, 2016, includes \$17 million related to foreign net operating loss carryforwards and \$10 million relating to foreign advertising spend carryforward. This amount represented an overall increase of \$10 million over the amount recorded as of December 31, 2015. The increase is primarily related to additional foreign net operating losses. Except for such foreign deferred tax assets, we expect to realize all of our deferred tax assets based on a strong history of earnings in the US and other jurisdictions, as well as future reversals of taxable temporary differences.

We have not provided for deferred U.S. income taxes on undistributed earnings of our foreign subsidiaries that we have or intend to reinvest permanently outside the United States; the total amount of such earnings as of December 31, 2016 was \$828 million. Should we distribute or be treated under certain U.S. tax rules as having distributed earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. Due to

complexities in tax laws and various assumptions that would have to be made, it is not practicable at this time to estimate the amount of unrecognized deferred U.S. taxes on these earnings.

A reconciliation of the provision for income taxes to the amounts computed by applying the statutory federal income tax rate to income before income taxes is as follows:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Income tax expense at the federal statutory rate of 35%	\$53	\$84	\$113
Foreign rate differential	(35)	(53)	(49)
State income taxes, net of effect of federal tax benefit	4	4	13
Unrecognized tax benefits and related interest	11	12	14
Change in cost-sharing treatment of stock-based compensation	(6)	(13)	—
Non-deductible transaction costs	—	1	1
Research tax credit	(10)	(3)	(2)
Stock-based compensation	2	2	2
Change in valuation allowance	9	5	5
Other, net	3	2	(1)
Provision for income taxes	\$31	\$41	\$96

During 2011, the Singapore Economic Development Board accepted our application to receive a tax incentive under the International Headquarters Award. This incentive provides for a reduced tax rate on qualifying income of 5% as compared to Singapore's statutory tax rate of 17% and is conditional upon our meeting certain employment and investment thresholds. This agreement has been extended until June 30, 2021 as we have met certain employment and investment thresholds. This benefit resulted in a decrease to our 2016 provision for income tax expense of \$2 million, adding an incremental \$0.01 to our Diluted EPS for the year ended December 31, 2016.

By virtue of previously filed consolidated income tax returns filed with Expedia, we are currently under an IRS audit for the 2009, 2010, and 2011 tax years, and have various ongoing state income tax audits. We are separately under examination by the IRS for the 2012 and 2013 tax years and have 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 2008. As of December 31, 2016, 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 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 a tax benefit of \$6 million and \$13 million in its consolidated statement of operations for the years ended December 31, 2016 and 2015, respectively. The Company will continue to monitor this matter and related potential impacts to its consolidated financial statements.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (excluding interest and penalties) is as follows:

	December 31,		
	2016	2015	2014
	(in millions)		
Balance, beginning of year	\$89	\$ 67	\$ 36
Increases to tax positions related to the current year	16	15	13
Increases to tax positions related to the prior year	1	7	18
Reductions due to lapsed statute of limitations	(1)	—	—
Decreases to tax positions related to the prior year	—	—	—
Settlements during current year	—	—	—
Balance, end of year	\$105	\$ 89	\$ 67

As of December 31, 2016, we had \$105 million of unrecognized tax benefits, net of interest, which is classified as long-term and included in other long-term liabilities on our consolidated balance sheet. The amount of unrecognized tax benefits, if recognized, would reduce income tax expense by \$63 million, due to correlative adjustments in other tax jurisdictions. We recognize interest and penalties related to unrecognized tax benefits in income tax expense on our consolidated statement of operations. As of December 31, 2016 and 2015, total gross interest accrued was \$9 million and \$6 million, respectively. We do not anticipate any material changes in the next fiscal year.

NOTE 11: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31,	
	2016	2015
	(in millions)	
Accrued employee salary, bonus, and related benefits	\$ 53	\$ 47
Accrued marketing costs	37	43
Other	37	33
Total	\$ 127	\$ 123

NOTE 12: OTHER LONG-TERM LIABILITIES

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Other long-term liabilities consisted of the following for the periods presented:

	December 31, 2016	December 31, 2015
	(in millions)	
Unrecognized tax benefits (1)	\$ 108	\$ 87
Financing obligation, net of current portion (2)	84	84
Other (3)	18	18
Total	\$ 210	\$ 189

(1) See “Note 10—Income Taxes” for additional information on our unrecognized tax benefits. Amount includes accrued interest related to this liability.

(2) Refer to “Note 13 – Commitments and Contingencies,” for additional information on our corporate headquarters lease.

(3) Amounts primarily consist of long term deferred rent balances related to operating leases for office space.

NOTE 13: COMMITMENTS AND CONTINGENCIES

We have material commitments and obligations that include office space leases, and expected interest and commitment fees on long-term debt, which are not accrued on the consolidated balance sheet at December 31, 2016 but we expect to require future cash outflows.

The following table summarizes our material commitments and obligations as of December 31, 2016:

	By Period				More than
	Less than				
	1	1 to 3 years	3 to 5 years	5 years	
	Total	year	1 to 3 years	3 to 5 years	5 years
	(in millions)				
Property leases, net of sublease income (1)	\$248	\$25	\$ 51	\$ 52	\$ 120
Expected interest payments on 2015 Credit Facility (2)	7	2	4	1	—
Expected commitment fee payments on 2015 Credit Facility (3)	7	2	4	1	—
Total (4)	\$262	\$29	\$ 59	\$ 54	\$ 120

- (1) Estimated future minimum rental payments under operating leases with non-cancelable lease terms, including our corporate headquarters lease in Needham, MA.
- (2) The amounts included as expected interest payments on the 2015 Credit Facility in this table are based on the effective interest rate and outstanding borrowings as of December 31, 2016, but, could change significantly in the future. Amounts assume that our existing debt is repaid at the end of the credit agreement and do not assume additional borrowings or refinancing of existing debt. Refer to “Note 9— Debt” for additional information on our 2015 Credit Facility.
- (3) The amounts included as expected commitment fee payments in this table are based on the unused portion of credit facility, issued letters of credit, and current effective commitment fee rate as of December 31, 2016; however, these variables could change significantly in the future.
- (4) Excluded from the table was \$108 million of unrecognized tax benefits, including accrued interest, that we have recorded in other long-term liabilities on our consolidated balance sheet for which we cannot make a reasonably reliable estimate of the amount and period of payment. We do not anticipate any material changes in the next year.

Office Lease Commitments

We have contractual obligations in the form of operating leases for office space for which we record the related expense on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options. Rent expense related to such leases is recorded on a straight-line basis. Operating lease obligations expire at various dates with the latest maturity in December 2030. For the years ended December 31, 2016, 2015 and 2014, we recorded rental expense of \$18 million, \$19 million and \$17 million, respectively.

Corporate Headquarters Lease

In June 2013, TripAdvisor LLC (“TA LLC”), our indirect, wholly owned subsidiary, entered into a lease, for a new corporate headquarters (the “Lease”). Pursuant to the Lease, the landlord built an approximately 280,000 square foot rental building in Needham, Massachusetts (the “Premises”), and leased the Premises to TA LLC as our new corporate headquarters for an initial term of 15 years and 7 months or through December 2030. TA LLC also has an option to

extend the term of the Lease for two consecutive terms of five years each.

Because we were involved in the construction project and were responsible for paying a portion of the costs of normal finish work and structural elements of the Premises, the Company was deemed for accounting purposes to be the owner of the Premises during the construction period under build to suit lease accounting guidance under GAAP. Therefore, the Company recorded project construction costs during the construction period incurred by the landlord as a construction-in-progress asset and a related construction financing obligation on our consolidated balance sheets. The amounts that the Company has paid or incurred for normal tenant improvements and structural improvements had also been recorded to the construction-in-progress asset.

Upon completion of construction at end of the second quarter of 2015, we evaluated the construction-in-progress asset and construction financing obligation for de-recognition under the criteria for “sale-leaseback” treatment under GAAP. We concluded that we have forms of continued economic involvement in the facility, and therefore did not meet the provisions for sale-leaseback accounting. This determination was based on the Company's continuing involvement with the property in the form of non-recourse financing to the lessor. Therefore, the Lease is accounted for as a financing obligation. Accordingly, we began depreciating the building asset over its estimated useful life and incurring interest expense related to the financing obligation imputed using the effective interest rate method. We bifurcate our lease payments pursuant to the Premises into: (i) a portion that is allocated to the building (a reduction to the financing obligation) and; (ii) a portion that is allocated to the land on which the building was constructed. The portion of the lease obligations allocated to the land is treated as an operating lease that commenced in 2013. The financing obligation is considered a long-term finance lease obligation and is recorded to long-term liabilities on our consolidated balance sheet. At the end of the lease term, the carrying value of the building asset and the remaining financing obligation are expected to be equal, at which time we may either surrender the leased asset as settlement of the remaining financing obligation or extend the initial term of the lease for the continued use of the asset. In the years ended December 31 2016, 2015, and 2014, the Company recorded \$7 million, \$4 million, and \$0 million of interest expense, respectively, \$3 million, \$2 million, and \$0 million of depreciation expense, respectively, and \$2 million, \$1 million, \$1 million, of rent expense in general and administrative expense on our consolidated statements of operations, respectively, related to the Premises.

Additional United States and International Locations

We also lease an aggregate of approximately 465,000 square feet at approximately 40 other locations across North America, Europe and Asia Pacific, in cities such as, New York, Boston, London, Sydney, Barcelona, Paris, and Beijing, primarily for our sales offices, subsidiary headquarters, and international management teams, pursuant to leases with various expiration dates, with the latest expiring in June 2027.

As of December 31, 2016, future minimum commitments under our corporate headquarters lease and other non-cancelable operating leases for office space with terms of more than one year and contractual sublease income were as follows:

Year	Corporate Headquarters		Sublease Income	Total Lease Commitments (Net of Sublease Income)
	Lease (1)	Operating Leases		
2017	\$9	\$ 17	\$ (1)	\$ 25
2018	9	17	(1)	25
2019	9	18	(1)	26
2020	9	17	—	26
2021	10	16	—	26
Thereafter	87	33	—	120
Total minimum lease payments	\$133	\$ 118	\$ (3)	\$ 248

(1) Amount includes an \$84 million financing obligation, which we have recorded in other long-term liabilities on our consolidated balance sheet at December 31, 2016, related to our corporate headquarters lease.

Letters of Credit

As of December 31, 2016, we have issued unused letters of credit totaling \$3 million, related to our property leases, which includes \$1 million delivered to the landlord of our corporate headquarters as security deposit, which amount is subject to increase under certain circumstances.

Legal Proceedings

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

Income Taxes

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

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flows, in foreign jurisdictions which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows. See “Note 10— Income Taxes” above for further information on potential contingencies surrounding income taxes.

NOTE 14: EMPLOYEE BENEFIT PLANS

Retirement Savings Plan

The TripAdvisor Retirement Savings Plan (the “401(k) Plan”), qualifies under Section 401(k) of the Internal Revenue Code. The 401(k) Plan allows participating employees, most of our U.S. employees, to make contributions of a specified percentage of their eligible compensation. Participating employees may contribute up to 50% of their eligible salary on a pre-tax basis, but not more than statutory limits. Employee-participants age 50 and over may also contribute an additional amount of their salary on a pre-tax tax basis up to the IRS Catch-Up Provision Limit, or catch-up contributions. Employees may also contribute into the 401(k) Plan on an after-tax basis up to an annual maximum of 10%. The 401(k) Plan has an automatic enrollment feature at 6% pre-tax. We match 50% of the first 6% of employee contributions to the plan for a maximum employer contribution of 3% of a participant’s eligible earnings.

The “catch up contributions”, are not eligible for employer matching contributions. The matching contributions portion of an employee’s account, vests after two years of service. The Plan also permits certain after-tax Roth 401(k) contributions. Additionally, at the end of the 401(k) Plan year, we make a discretionary matching contribution to eligible participants. This additional discretionary matching employer contribution referred to as “true up” is limited to match only contributions up to 3% of eligible compensation.

We also have various defined contribution plans for our international employees. Our contribution to the 401(k) Plan and our international defined contribution plans was \$9 million, \$7 million, and \$5 million for the years ended December 31, 2016, 2015 and 2014, respectively, and recorded to our consolidated statements of operations, respectively, for those years.

TripAdvisor, Inc. Deferred Compensation Plan for Non-Employee Directors

The Company also has a Deferred Compensation Plan for Non-Employee Directors (the “Plan”). Under the Plan, eligible directors who defer their directors’ fees may elect to have such deferred fees (i) applied to the purchase of share units, representing the number of shares of our common stock that could have been purchased on the date such fees would otherwise be payable, or (ii) credited to a cash fund. The cash fund will be credited with interest at an annual rate equal to the weighted average prime or base lending rate of a financial institution selected in accordance with the terms of the Plan and applicable law. Upon termination of service as a director of TripAdvisor, a director will receive (i) with respect to share units, such number of shares of our common stock as the share units represent, and (ii) with respect to the cash fund, a cash payment. Payments upon termination will be made in either one lump sum or up to five annual installments, as elected by the eligible director at the time of the deferral election.

Under the 2011 Incentive Plan, 100,000 shares of TripAdvisor common stock are available for issuance to non-employee directors. From the inception of the Plan through December 31, 2016, a total of 1,662 shares have been reserved for such purpose.

NOTE 15: STOCKHOLDERS’ EQUITY

Preferred Stock

In addition to common stock, we are authorized to issue up to 100 million preferred shares, with \$ 0.001 par value per share, with terms determined by our Board of Directors, without further action by our stockholders. At December 31, 2016, no preferred shares had been issued.

Common Stock and Class B Common Stock

Our authorized common stock consists of 1.6 billion shares of common stock with par value of \$0.001 per share, and 400 million shares of Class B common stock with par value of \$0.001 per share. Both classes of common stock qualify for and share equally in dividends, if declared by our Board of Directors. Common stock is entitled to one vote per share and Class B common stock is entitled to 10 votes per share on most matters. Holders of TripAdvisor common stock, acting as a single class, are entitled to elect a number of directors equal to 25% percent of the total number of directors, rounded up to the next whole number, which was two directors as of December 31, 2016. Class B common stockholders may, at any time, convert their shares into common stock, on a one for one share basis. Upon conversion, the Class B common stock is retired and is not available for reissue. In the event of liquidation, dissolution, distribution of assets or winding-up of TripAdvisor the holders of both classes of common stock have equal rights to receive all the assets of TripAdvisor after the rights of the holders of the preferred stock have been satisfied. There were 134,706,467 and 131,310,980 shares of common stock issued and outstanding, respectively, at December 31, 2016 and 12,799,999 shares of Class B common stock issued and outstanding at December 31, 2016.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss is primarily comprised of accumulated foreign currency translation adjustments, as follows for the periods presented:

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	December 31,	
	2016	2015
	(in millions)	
Cumulative foreign currency translation		
adjustments (1)	\$ (77)	\$ (63)
Total accumulated other comprehensive loss (2)	\$ (77)	\$ (63)

(1) We consider our foreign subsidiary earnings indefinitely reinvested; therefore, deferred taxes are not provided on foreign currency translation adjustments.

(2) Our accumulated net unrealized gain (loss) on available for sale securities was not material as of December 31, 2016 and December 31, 2015.

Treasury Stock

On February 15, 2013, our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a share repurchase program. During the year ended December 31, 2016, we repurchased 2,002,356 shares of outstanding common stock under the share repurchase program at an average cost of \$52.35 per share. During the years ended December 31, 2015 and 2014, we did not repurchase any shares of outstanding common stock under the share repurchase program.

As of December 31, 2016, we have repurchased a total of 4,123,065 shares of outstanding common stock under the share repurchase program at an average cost of \$60.63 per share and have completed our share repurchase program authorized by our Board of Directors.

In December 2015, we issued 801,042 treasury shares to the Foundation in settlement of all future pledge obligations. Refer to “Note 17 – Segment and Geographic Information,” for a discussion of this transaction.

We have 3,395,487 treasury shares remaining as of December 31, 2016 with an aggregate cost of \$197 million.

Dividends

During the years ended December 31, 2016, 2015, and 2014, our Board of Directors did not declare any dividends on our outstanding common stock and do not expect to pay any dividends for the foreseeable future.

NOTE 16: RELATED PARTY TRANSACTIONS

Relationship between Expedia and TripAdvisor

Upon consummation of the Spin-Off, Expedia was considered a related party under GAAP based on a number of factors, including, among others, common ownership of our shares and those of Expedia. However, we no longer consider Expedia a related party. For purposes of governing certain of the ongoing relationships between us and Expedia at and after the Spin-Off, and to provide for an orderly transition, we and Expedia entered into various agreements at the time of the Spin-Off, which TripAdvisor has satisfied its obligations. However, TripAdvisor continues to be subject to certain post-spin obligations under the Tax Sharing Agreement.

Under the Tax Sharing Agreement between us and Expedia, 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. The full text of the Tax Sharing Agreement is incorporated by reference in this Annual Report on Form 10-K as Exhibit 10.2. Refer to “Note 10— Income Taxes” above for information regarding the status of completed and ongoing IRS audits of our consolidated income tax returns with Expedia to date.

Relationship between Liberty TripAdvisor Holdings, Inc. and TripAdvisor

We consider Liberty TripAdvisor Holdings, Inc. (“LTRIP”) a related party. As of December 31, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constituted 13.8% 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 21.5% of the outstanding common stock. Because each share of Class B

common stock is generally 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 56.4% of our voting power. Refer to “Note 1— Organization and Business Description” above, which describes the evolution of our relationship with LTRIP.

We had no related party transactions with LTRIP during the years ended December 31, 2016, 2015 or 2014.

NOTE 17: SEGMENT AND GEOGRAPHIC INFORMATION

Segment Information

Our reporting structure includes two reportable segments: Hotel and Non-Hotel. In the first quarter of 2016, we renamed our “Other” reportable segment “Non-Hotel.” This change had no effect on our consolidated financial statements or to previously reported segment information, as there was no change in the composition of our operating or reportable segments.

Hotel

Our Hotel segment includes revenue generated from the following sources:

• **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 partners’ sites. Our click-based advertising partners are predominantly online travel agencies, or OTAs, and direct suppliers in the hotel product 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 are determined in a dynamic, competitive auction process that enables our partners to use our proprietary, automated bidding system to submit CPC bids to have their hotel rates and availability listed on our site. Transaction revenue is generated from our 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 on our website.

• **Display-Based and subscription-based advertising revenue.** Advertising 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 accept display advertising from OTAs and attractions, as well as advertisers from non-travel categories. Display-based advertising is sold predominantly on a cost per thousand impressions, or CPM, basis. Subscription-based advertising is offered to hotels, B&Bs and other specialty lodging properties. This advertising product is sold for a flat fee and enables subscribers to list, for a contracted period of time, a website URL, email address and phone number on our TripAdvisor-branded websites, as well as to post special offers for travelers.

• **Other hotel revenue.** Our other hotel revenue primarily includes revenue from non-TripAdvisor branded websites, such as smartertravel.com, independenttraveler.com, and bookingbuddy.com, which includes click-based advertising revenue, display-based advertising revenue, hotel room reservations sold through these websites, and advertising revenue from making cruise reservations available for price comparison and booking.

Non-Hotel

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

Attractions. We provide information and services for users to research and book activities and attractions in popular travel destinations through our dedicated attractions business, Viator. We generate revenue by charging the operators a commission for each transaction we facilitate through our online reservation systems. In addition to its

consumer-direct business, Viator also powers activity and attractions booking capabilities to its affiliate partners, including some of the world's top airlines, hotel chains and online and offline travel agencies. Viator's bookable inventory is available on www.viator.com as well as TripAdvisor-branded websites and mobile applications.

Restaurants. Through our restaurant reservations business The Fork we provide information and services for users to research and book restaurants. The Fork is an online restaurant booking platform operating on a number of sites (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, www.dimmi.com.au, and www.en.couverts.nl), with a network of restaurant partners primarily across Europe and Australia. The Fork generates revenue by charging our restaurant partners a fee for each restaurant guest, or seated diner, that we facilitate through our online reservation systems. The Fork also provides flexible online booking and a premium data and analytics tool, for which the restaurant owner pays a subscription fee. The Fork's bookable inventory is also available on TripAdvisor-branded websites and mobile applications.

Vacation Rentals. 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. The vacation rentals business generates revenue by offering individual property owners and property managers, the ability to list their properties on our websites and mobile applications through a free-to-list, commission-based option, and to a lesser extent, an annual subscription-based fee structure. These properties are listed on a number of platforms, including www.flipkey.com, www.holidaylettings.co.uk, www.housetrip.com, www.niumba.com, and www.vacationhomerentals.com, as well as on our TripAdvisor-branded websites.

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

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

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The following tables present our segment information for the years ended December 31, 2016, 2015 and 2014, and includes 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 evaluate operating segments using this information. We also do not regularly provide such information by segment to our chief operating decision maker. Our consolidated general and administrative expenses, excluding stock-based compensation costs, are shared by all operating segments. Each operating segment receives an allocated charge based on the segment's percentage of the Company's total personnel costs.

Year ended December 31, 2016
Corporate
and

	Hotel	Non-Hotel	unallocated	Total
	(in millions)			
Revenue	\$ 1,190	\$ 290	\$ —	\$ 1,480
Adjusted EBITDA (1)	380	(28)	—	352
Depreciation			(69)	(69)
Amortization of intangible assets			(32)	(32)
Stock-based compensation			(85)	(85)
Operating income				166
Other expense, net				(15)
Income before income taxes				151
Provision for income taxes				(31)
Net income				\$ 120

Year ended December 31, 2015
Corporate
and

	Hotel	Non-Hotel	unallocated	Total
	(in millions)			
Revenue	\$ 1,263	\$ 229	\$ —	\$ 1,492
Adjusted EBITDA (1)	472	(6)	—	466
Depreciation			(57)	(57)
Amortization of intangible assets			(36)	(36)
Stock-based compensation			(72)	(72)
Non-cash charitable contribution (2)			(67)	(67)
Other non-recurring expenses			(2)	(2)
Operating income				232
Other income, net				7
Income before income taxes				239
Provision for income taxes				(41)

Net income

\$198

	Year ended December 31, 2014			
	Corporate and			
	Hotel	Non-Hotel	unallocated	Total
	(in millions)			
Revenue	\$ 1,135	\$ 111	\$ —	\$ 1,246
Adjusted EBITDA (1)(3)	472	(4)	—	468
Depreciation			(47)	(47)
Amortization of intangible assets			(18)	(18)
Stock-based compensation			(63)	(63)
Operating income				340
Other expense, net				(18)
Income before income taxes				322
Provision for income taxes				(96)
Net income				\$ 226

- (1) Includes allocated general and administrative expenses in our Hotel segment of \$80 million, \$85 million and \$87 million; and in our Non-Hotel segment of \$38 million, \$28 million and \$18 million for the years ended December 31, 2016, 2015 and 2014, respectively.
- (2) During the fourth quarter of 2015, we incurred an expense in the amount of \$67 million to reflect a non-cash contribution to The TripAdvisor Charitable Foundation (the "Foundation"), which was recorded to general and administrative expense in our consolidated statement of operations. TripAdvisor had historically funded 2% of its annual operating income before amortization and stock-based compensation. TripAdvisor's pledge agreement provided for an immediate satisfaction of all future annual contributions, by paying an amount equal to eight multiplied by TripAdvisor's prior year contribution to the Foundation. TripAdvisor exercised this right under its pledge agreement in December 2015. We settled this obligation in treasury shares based on the fair value of our common stock on the date the treasury shares were issued to the Foundation and therefore given the use of stock to settle the obligation, the amount has been excluded from Adjusted EBITDA. TripAdvisor does not expect to make any future contributions to the Foundation.
- (3) Hotel segment Adjusted EBITDA includes charitable contributions to the Foundation which were funded in cash of \$8 million for the year ended December 31, 2014.

Revenue and Geographic Information

In the first quarter of 2016 we began providing additional disclosure on our revenue sources within our Hotel segment, which are TripAdvisor-branded click-based and transaction revenue, TripAdvisor-branded display-based advertising and subscription revenue; and other hotel revenue, which along with our Non-Hotel revenue source comprise our products. In conjunction with providing these additional revenue disclosures, we will no longer provide our historically reported revenue disclosure of click-based advertising, display-based advertising, and subscription, transaction and other revenues. This change had no effect on our consolidated financial statements in any period or with the composition of our operating or reportable segments.

The following table presents revenue by source for the periods presented:

Year ended December
31,

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	2016	2015	2014
	(in millions)		
TripAdvisor-branded click-based and transaction	\$750	\$837	\$764
TripAdvisor-branded display-based advertising and			
subscription	282	272	233
Other hotel revenue	158	154	138
Non-hotel revenue	290	229	111
Total revenue	\$1,480	\$1,492	\$1,246

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The following table presents revenue by geographic area, the United States, the United Kingdom and all other countries, based on the geographic location of our websites for the periods presented:

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Revenue			
United States	\$799	\$739	\$593
United Kingdom	210	215	191
All other countries	471	538	462
Total revenue	\$1,480	\$1,492	\$1,246

The following table presents property and equipment, net for the United States and all other countries based on the geographic location of the assets for the periods presented:

	December 31,	
	2016	2015
	(in millions)	
Property and equipment, net		
United States	\$222	\$217
All other countries	38	30
Total	\$260	\$247

NOTE 18: INTEREST INCOME AND OTHER, NET

The following table presents the detail of interest income and other, net, for the periods presented:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Net loss, realized and unrealized, on foreign currency exchange			
and foreign currency derivative contracts and other, net	\$(4)	\$(4)	\$(10)
Interest income	1	1	1
Gain on sale of business (1)	—	20	—
Total	\$(3)	\$17	\$(9)

(1) See “Note 3 – Acquisitions and Dispositions” for information regarding our gain on sale of business in 2015.

NOTE 19: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents selected unaudited financial information for the eight quarters in the period ended December 31, 2016. The results for any quarter are not necessarily indicative of future quarterly results and, accordingly, period to period comparisons should not be relied upon as an indication of future performance.

	Three Months Ended			
	June 30			
	March 31	June 30	September 30	December 31
	(in millions, except per share data)			
Year ended December 31, 2016				
Revenue	\$ 352	\$ 391	\$ 421	\$ 316
Operating income	42	47	66	10
Net income	29	34	55	1
Basic earnings per share (1)	\$ 0.20	\$ 0.23	\$ 0.38	\$ 0.01
Diluted earnings per share (1)	\$ 0.20	\$ 0.23	\$ 0.37	\$ 0.01
Year ended December 31, 2015				
Revenue	\$ 363	\$ 405	\$ 415	\$ 309
Operating income (loss) (2)	90	79	88	(25)
Net income	63	58	74	3
Basic earnings per share (1)	\$ 0.44	\$ 0.40	\$ 0.51	\$ 0.02
Diluted earnings per share (1)	\$ 0.43	\$ 0.40	\$ 0.51	\$ 0.02

- (1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.
- (2) During the fourth quarter of 2015, we recognized an incremental \$59 million charge over the third quarter of 2015, related to a non-cash charitable contribution recorded to general and administrative expense on our consolidated statement of operations. Refer to “Note 17 – Segments and Geographic Information” for a discussion of this charitable contribution.
- (3) In the third quarter of 2016, the Company early adopted ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Refer to “Note 2 – Significant Accounting Policies” for the impact of the adoption of this guidance on the first and second quarters of 2016.

NOTE 20: SUBSEQUENT EVENTS

On January 25, 2017, our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a new share repurchase program. The repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time. The Executive Committee of our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders.

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In January 2017, as part of the Company's IRS audit with Expedia, we received Notices of Proposed Adjustment from the IRS for the 2009 and 2010 tax years. Refer to "Note 10 – Income Taxes" for a discussion of this matter.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 31, 2016, our management, with the participation of our Chief Executive Officer and President and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our Chief Executive Officer and President and our Chief Financial Officer concluded that, as of December 31, 2016, 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 Securities and Exchange Commission's, or the SEC's, rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our Chief Executive Officer and President 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 December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and President and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's management evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. Pursuant to Exchange Act Rule 13a-15(d) or 15d-15(d), management has concluded that, as of December 31, 2016, our internal control over financial reporting was effective. Management has reviewed its assessment with the Audit Committee. KPMG LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report which is included below.

Limitations on Effectiveness of Controls and Procedures

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Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

TripAdvisor, Inc.:

We have audited TripAdvisor, Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). TripAdvisor, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TripAdvisor, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TripAdvisor, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 17, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Boston, Massachusetts

February 17, 2017

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 11. Executive Compensation

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 14. Principal Accounting Fees and Services

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The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following is filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements: The consolidated financial statements and report of independent registered public accounting firms required by this item are included in Part II, Item 8. All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the consolidated financial statements or in the notes thereto.

(b) Exhibits: The attached list of exhibits in the “Exhibit Index” immediately preceding the exhibits to this annual report is incorporated herein by reference in response to this item.

Signatures

Pursuant to the requirements of the Section 13 or 15(d) of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRIPADVISOR, INC.

By: /s/ STEPHEN KAUFER
February 17, 2017 Stephen Kaufer

Chief Executive Officer and President

POWER OF ATTORNEY

We, the undersigned officers and directors of TripAdvisor, Inc., hereby severally constitute and appoint Stephen Kaufer and Ernst Teunissen, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us in our names in the capacities indicated below, all amendments to this report, and generally to do all things in our names and on our behalf in such capacities to enable TripAdvisor, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 17, 2017.

Signature	Title
/s/ STEPHEN KAUFER	Chief Executive Officer, President and Director
Stephen Kaufer	(Principal Executive Officer)
/s/ ERNST TEUNISSEN	Chief Financial Officer
Ernst Teunissen	(Principal Financial Officer)
/s/ NOEL WATSON	Chief Accounting Officer
Noel Watson	(Principal Accounting Officer)
/s/ GREGORY B. MAFFEI	Chairman of the Board
Gregory B. Maffei	Director

/s/ DIPCHAND V. NISHAR
Dipchand V. Nishar

/s/ JEREMY PHILIPS Director
Jeremy Philips

/s/ SPENCER M. RASCOFF Director
Spencer M. Rascoff

/s/ ALBERT E. ROSENTHALER Director
Albert E. Rosenthaler

/s/ SUKINDER SINGH CASSIDY Director
Sukinder Singh Cassidy

/s/ ROBERT S. WIESENTHAL Director
Robert S. Wiesenthal

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Filed Hereafter	SEC Form File No.	Exhibit No.	Filing Date
2.1	Separation Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011	8-K	001-35362	2.1	12/27/11
3.1	Restated Certificate of Incorporation of TripAdvisor, Inc.	8-K	001-35362	3.1	12/27/11
3.2	Amended and Restated Bylaws of TripAdvisor, Inc.	8-K	001-35362	3.2	12/27/11
3.3	Amended No. 1 to Amended and Restated Bylaws of TripAdvisor, Inc.	8-K	001-35362	3.1	2/12/13
4.1	Equity Warrant Agreement by and between TripAdvisor, Inc. and Mellon Investor Services LLC, as Equity Warrant Agent, dated as of December 20, 2011	8-K	001-35362	4.1	12/27/11
4.2	Specimen TripAdvisor, Inc. Common Stock Certificate	S-4/A	333-175828-046	4.2	10/24/11
10.1	Governance Agreement, by and among TripAdvisor, Inc., Liberty Interactive Corporation and Barry Diller, dated as of December 20, 2011	8-K	001-35362	10.1	12/27/11
10.2	Tax Sharing Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011	8-K	001-35362	10.2	12/27/11
10.3	Employee Matters Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011	8-K	001-35362	10.3	12/27/11
10.4	Transition Services Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011	8-K	001-35362	10.4	12/27/11
10.5	Sublease between Newton Technology Park LLC and TripAdvisor LLC, dated as of October 31, 2007	S-4/A	333-175828-010.12	10.5	10/24/11
10.6	First Amendment to Sublease between Newton Technology Park LLC and TripAdvisor LLC, dated as of June 15, 2009	S-4/A	333-175828-010.13	10.6	10/24/11
10.7	Credit Agreement, by and among TripAdvisor, TripAdvisor Holdings, LLC, and TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent, dated as of December 20, 2011	8-K	001-35362	4.2	12/27/11
10.8	Waiver and Amendment Agreement, by and among TripAdvisor, TripAdvisor Holdings, LLC, and TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent, dated as of December 27, 2013	10-K	001-35362	10.8	2/11/14
10.9+	Amended and Restated TripAdvisor, Inc. 2011 Stock and Annual Incentive Plan	10-Q	333-190384	10.1	11/8/16
10.10+	TriPAdvisor, Inc. Deferred Compensation Plan for Non-Employee Directors	S-8	333-178637	4.6	12/20/11
10.11+	Form of Option Agreement (Domestic)	10-K	001-35362	10.12	2/17/15
10.12+	Form of Option Agreement (International)	10-K	001-35362	10.13	2/17/15

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10.13+	Form of Restricted Stock Unit Agreement (Domestic)	10-K	001-35362	10.14 2/17/15
10.14+	Form of Restricted Stock Unit Agreement (PRC)	10-K	001-35362	10.15 2/17/15

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Exhibit No.	Exhibit Description	Filed Here	Form	Incorporated by Reference		Filing Date
				SEC File No.	Exhibit No.	
10.15+	Form of Restricted Stock Unit Agreement (Other International)	10-K		001-35362	10.16	2/17/15
10.16+	Form of Restricted Stock Unit Agreement (Non-Employee Directors)	10-K		001-35362	10.17	2/17/15
10.17+	Form of Restricted Stock Unit Agreement (Performance Based)	10-K		001-35362	10.18	2/17/15
10.18	Corporate Headquarters Lease with Normandy Gap-V Needham Building 3, LLC, as landlord, dated as of June 20, 2013	10-Q		001-35362	10.1	7/24/13
10.19	Guaranty dated June 20, 2013 by TripAdvisor, Inc. for the benefit of Normandy Gap-V Needham Building 3, LLC, as landlord	10-Q		001-35362	10.2	7/24/13
10.20	Form of TripAdvisor Media Group Master Advertising Insertion Order	10-K		001-35362	10.21	2/11/14
10.21+	Employment Agreement between TripAdvisor LLC and Seth Kalvert, effective as of May 19, 2016	10-Q		001-35362	10.1	5/23/16
10.22+	Employment Agreement between TripAdvisor LLC and Stephen Kaufer, effective as of February 11, 2014	10-Q		001-35362	10.3	5/6/14
10.23+	Viator, Inc. 2010 Stock Incentive Plan	S-8		333-198726	16.1	9/12/14
10.24+	Offer Letter dated February 15, 2016, between TripAdvisor Limited and Dermot Halpin	X				
10.25+	Offer Letter dated July 22, 2014 between TripAdvisor LLC and Barrie Seidenberg	10-Q		001-35362	10.3	5/6/15
10.26	Credit Agreement dated as of June 26, 2015 by and among TripAdvisor, Inc., TripAdvisor Holdings, LLC, TripAdvisor LLC, JPMorgan Chase Bank, N.A., as Administrative Agent; J.P. Morgan Europe Limited, as London Agent; Morgan Stanley Bank, N.A.; Bank of America, N.A.; BNP Paribas; SunTrust Bank; Wells Fargo Bank, National Association; Royal Bank of Canada; Barclays Bank PLC; U.S. Bank National Association; Citibank, N.A.; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Goldman Sachs Bank USA; and Deutsche Bank AG New York Branch.	8-K		001-35362	10.1	6/30/15
10.27+	Employment Agreement, dated as of October 6, 2015, between TripAdvisor, LLC and Ernst Teunissen	8-K		001-35362	10.1	10/8/15
10.28	Transition Services Agreement, dated as of November 17, 2016, between TripAdvisor, LLC and Barrie Seidenberg	8-K		001-35362	10.1	11/17/16
21.1	Subsidiaries of the Registrant	X				
23.1	Consent of KPMG, LLP, Independent Registered Public Accounting Firm	X				
24.1	Power of Attorney (included in signature page)	X				
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2		X				

Certification of the Chief Financial Officer pursuant Section
302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer pursuant Section X
906 of the Sarbanes-Oxley Act of 2002

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Exhibit	No.	Exhibit Description	Filed Herewith	Form	Incorporated by Reference SEC	File No.	Exhibit No.	Filing Date
	32.2	Certification of the Chief Financial Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X					
	101	The following financial statements from the Company's Annual Report on X Form 10-K for the year ended December 31, 2016, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.						

+ Indicates a management contract or a compensatory plan, contract or arrangement.