TripAdvisor, Inc.
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

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

Commission file number: 001-35362

TRIPADVISOR, INC.

(Exact name of registrant as specified in its charter)

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

400 1st Avenue

Needham, MA 02494

(Address of principal executive office) (Zip Code)

Registrant’s telephone number, including area code:

(781) 800-5000

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

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

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

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

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

Class	Outstanding Shares at July 29, 2016
Common Stock, $0.001 par value per share	132,857,694 shares
Class B common stock, $0.001 par value per share	12,799,999 shares

TripAdvisor, Inc.

Form 10-Q

For the Quarter Ended June 30, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	$391	$405	$743	$768
Costs and expenses:				
Cost of revenue (1)	20	16	36	29
Selling and marketing (2)	202	192	374	350
Technology and content (2)	62	50	123	99
General and administrative (2)	34	44	72	77
Depreciation	17	15	33	28
Amortization of intangible assets	8	9	15	16
Total costs and expenses:	343	326	653	599
Operating income	48	79	90	169
Other income (expense):				
Interest expense	(3)	(2)	(6)	(4)
Interest income and other, net	-	5	-	3
Total other income (expense), net	(3)	3	(6)	(1)
Income before income taxes	45	82	84	168
Provision for income taxes	(11)	(24)	(22)	(47)
Net income	$34	$58	$62	$121
Earnings per share attributable to common stockholders (Note 4):				
Basic	$0.23	$0.40	$0.42	$0.85
Diluted	$0.23	$0.40	$0.42	$0.83
Weighted average common shares outstanding (Note 4):				
Basic	146	144	146	143
Diluted	147	146	147	146
(1) Excludes amortization as follows:				
Amortization of acquired technology included in amortization of intangible assets	$1	$3	$3	$5
Amortization of website development costs included in depreciation	11	10	21	19
	$12	$13	$24	$24
(2) Includes stock-based compensation expense as follows:				
Selling and marketing	$5	$4	$10	$8

Technology and content	$10	$7	$20	$13
General and administrative	$7	$7	$12	$13

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	$34	$ 58	$62	$121
Other comprehensive income (loss):				
Foreign currency translation adjustments (1)	(8)	9	1	(19)
Total other comprehensive income (loss)	(8)	9	1	(19)
Comprehensive income	$26	$ 67	$63	$102

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

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 5)	$ 766	$ 614
Short-term marketable securities (Note 5)	87	47
Accounts receivable, net of allowance for doubtful accounts of $6 and $6, respectively	230	180
Prepaid expenses and other current assets	24	24
Total current assets	1,107	865
Long-term marketable securities (Note 5)	38	37
Property and equipment, net of accumulated depreciation of $120 and $88, respectively	256	247
Intangible assets, net of accumulated amortization of $68 and $52, respectively	169	176
Goodwill	733	732
Other long-term assets	82	71
TOTAL ASSETS	$ 2,385	$ 2,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 25	$ 10
Deferred merchant payables	288	105
Deferred revenue	97	64
Current portion of debt (Note 6)	1	1
Taxes payable	11	9
Accrued expenses and other current liabilities (Note 8)	153	123
Total current liabilities	575	312
Deferred income taxes, net	18	15
Other long-term liabilities	196	189
Long-term debt (Note 6)	91	200
Total Liabilities	880	716
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.001 par value	-	-
Authorized shares: 100,000,000		
Shares issued and outstanding: 0 and 0		
Common stock, $0.001 par value	-	-
Authorized shares: 1,600,000,000		
Shares issued: 134,430,268 and 133,836,242, respectively		
Shares outstanding: 132,829,000 and 132,443,111, respectively		
Class B common stock, $0.001 par value	-	-
Authorized shares: 400,000,000		

Shares issued and outstanding: 12,799,999 and 12,799,999, respectively		
Additional paid-in capital	783	741
Retained earnings	888	826
Accumulated other comprehensive income (loss)	(62)	(63)
Treasury stock-common stock, at cost, 1,601,268 and 1,393,131 shares, respectively	(104)	(92)
Total Stockholders' Equity	1,505	1,412
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,385	$ 2,128

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(in millions, except number of shares)

	Common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock		
	Shares	Amount	Shares	Amount				Shares	Amount	Total
Balance as of December 31, 2015	133,836,242	$ -	12,799,999	$ -	$ 741	$ 826	$ (63)	(1,393,131)	$ (92)	$ 1,412
Net income						62				62
Other comprehensive income							1			1
Issuance of common stock related to exercises of options and vesting of RSUs	594,026	-			3					3
Repurchase of common stock								(208,137)	(12)	(12)
Tax benefits on equity awards, net					3					3
Minimum withholding taxes on net share settlements of equity awards					(11)					(11)
Stock-based compensation					47					47
Balance as of June 30, 2016	134,430,268	$ -	12,799,999	$ -	$ 783	$ 888	$ (62)	(1,601,268)	$ (104)	$ 1,505

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Six months ended June 30, 2016	2015
Operating activities:		
Net income	$62	$121
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including amortization of internal-use software and website development	33	28
Amortization of intangible assets	15	16
Stock-based compensation expense	42	34
Deferred tax (benefit) expense	(5)	9
Excess tax benefits from stock-based compensation	(6)	(30)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, prepaid expenses and other assets	(51)	(92)
Accounts payable, accrued expenses and other liabilities	43	33
Deferred merchant payables	179	149
Income taxes, net	11	-
Deferred revenue	34	31
Net cash provided by operating activities	357	299
Investing activities:		
Capital expenditures, including internal-use software and website development	(36)	(54)
Acquisitions, net of cash acquired	1	(29)
Purchases of marketable securities	(98)	(92)
Sales of marketable securities	40	46
Maturities of marketable securities	17	22
Net cash used in investing activities	(76)	(107)
Financing activities:		
Repurchase of common stock	(12)	-
Proceeds from Chinese credit facilities	-	4
Payments to Chinese credit facilities	-	(41)
Principal payments on term loan	-	(300)
Proceeds from revolving credit facility, net of financing costs	-	287
Payments to revolving credit facility	(109)	-
Proceeds from exercise of stock options	3	9
Payment of minimum withholding taxes on net share settlements of equity awards	(11)	(62)
Excess tax benefits from stock-based compensation	6	30
Other financing activities, net	-	12

Net cash used in financing activities	(123)	(61)
Effect of exchange rate changes on cash and cash equivalents	(6)	(3)
Net increase in cash and cash equivalents	152	128
Cash and cash equivalents at beginning of period	614	455
Cash and cash equivalents at end of period	$766	$583
Supplemental disclosure of non-cash investing and financing activities:		
Capitalization of construction in-process related to build to suit lease obligation	$-	$6
Capital expenditures incurred but not yet paid related to build to suit lease	$-	$9

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

TRIPADVISOR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

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

Description of Business

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

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

We have two reportable segments: Hotel and Non-Hotel. In the first quarter of 2016, we renamed our “Other” reportable segment “Non-Hotel.” This change had no effect on our consolidated financial statements or to previously reported segment information, as there was no change in the composition of our operating or reportable segments. Our operating segments are determined based on how our chief operating decision maker manages our business, regularly assesses information and evaluates performance for operating decision-making purposes, including allocation of resources. For further information on our reportable segments see “Note 11: Segment Information,” in these notes to our unaudited condensed consolidated financial statements.

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

Basis of Presentation

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

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

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

Accounting Estimates

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

Seasonality

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

New Accounting Pronouncements Not Yet Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance on stock compensation which changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We plan to adopt this guidance in the third quarter of 2016. For the six months ended June 30, 2016, we recognized net tax benefits totaling $3 million as additional paid-in capital on our Unaudited Condensed Consolidated Balance Sheet. Under the new accounting guidance this amount would have instead been recorded to provision for income taxes on our Unaudited Condensed Consolidated Statements of Operations, and will be reclassified in the third quarter of 2016. In addition, the excess tax benefits from stock-based award settlements that are currently reported as cash flows from financing activities on our Unaudited Condensed Consolidated Statement of Cash Flows totaling $6 million for the six months ended June 30, 2016 will instead, be reported as cash flows from operating activities and reclassified in the third quarter of 2016. Finally, we plan to account for forfeitures as they occur rather than continue to estimate expected forfeitures. The net cumulative effect of this change will be recorded to retained earnings upon adoption. The changes described above will be made retroactively as of January 1, 2016.

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

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

Recently Adopted Accounting Pronouncements

In 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.

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

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

NOTE 3: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

Stock-Based Compensation Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Selling and marketing	$5	$4	$10	$8
Technology and content	10	7	20	13
General and administrative	7	7	12	13
Total stock-based compensation	22	18	42	34
Income tax benefit from stock-based compensation	(8)	(6)	(15)	(12)
Total stock-based compensation, net of tax effect	$14	$12	$27	$22

Stock-Based Award Activity and Valuation

2016 Stock Option Activity

During the six months ended June 30, 2016, we issued 1,033,246 of primarily service-based non-qualified stock options under the Company's Amended and Restated 2011 Stock and Annual Incentive Plan (the "2011 Plan"). These stock options have a term of ten years from the date of grant and generally vest equitably over a four-year requisite service period.

A summary of the status and activity for stock option awards relating to our common stock for the six months ended June 30, 2016, 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 January 1, 2016	5,720	$ 53.71		
Granted	1,033	63.44		
Exercised (1)	(554)	29.34		
Cancelled or expired	(165)	69.53		
Options outstanding at June 30, 2016	6,034	$ 57.18	5.9	$ 78
Exercisable as of June 30, 2016	2,874	$ 42.45	4.6	$ 71
Vested and expected to vest after June 30, 2016	5,647	$ 56.59	5.7	$ 77

(1) Inclusive of 246,826 options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the minimum amount of required employee withholding taxes. Potential shares that had been convertible under stock options that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on The NASDAQ Global Select Market as of June 30, 2016 was $64.30. The total intrinsic value of stock options exercised for the six months ended June 30, 2016 and 2015 was $19 million and $122 million, respectively.

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

Three months ended June 30,		Six months ended June 30,
2016	2015	