TripAdvisor, Inc.
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

Class	Outstanding Shares at November 2, 2016
Common Stock, $0.001 par value per share	132,901,210 shares
Class B common stock, $0.001 par value per share	12,799,999 shares

TripAdvisor, Inc.

Form 10-Q

For the Quarter Ended September 30, 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	$421	$415	$1,164	$1,183
Costs and expenses:				
Cost of revenue (1)	19	16	55	46
Selling and marketing (2)	210	197	584	546
Technology and content (2)	62	54	185	152
General and administrative (2)	38	37	110	114
Depreciation	18	13	51	42
Amortization of intangible assets	8	10	23	26
Total costs and expenses:	355	327	1,008	926
Operating income	66	88	156	257
Other income (expense):				
Interest expense	(3)	(3)	(10)	(7)
Interest income and other, net (Note 14)	-	13	-	15
Total other income (expense), net	(3)	10	(10)	8
Income before income taxes	63	98	146	265
Provision for income taxes	(8)	(24)	(27)	(70)
Net income	$55	$74	$119	$195
Earnings per share attributable to common stockholders (Note 5):				
Basic	$0.38	$0.51	$0.82	$1.35
Diluted	$0.37	$0.51	$0.81	$1.34
Weighted average common shares outstanding (Note 5):				
Basic	146	144	146	144
Diluted	147	146	147	146
(1) Excludes amortization as follows:				
Amortization of acquired technology included in amortization of intangible assets	$2	$2	$5	$7
Amortization of website development costs included in depreciation	12	8	33	27
	$14	$10	$38	$34
(2) Includes stock-based compensation expense as follows:				
Selling and marketing	$5	$4	$15	$12

Technology and content	$ 11	$ 8	$ 30	$ 20
General and administrative	$ 6	$ 7	$ 19	$ 20

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$ 55	$ 74	$ 119	$ 195
Other comprehensive income (loss):				
Foreign currency translation adjustments (1)	3	(10)	4	(29)
Reclassification adjustment on sale of business included in total other income (expense), net (Note 14)	-	1	-	1
Total other comprehensive income (loss)	3	(9)	4	(28)
Comprehensive income	$ 58	$ 65	$ 123	$ 167

(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)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 6)	$ 611	$ 614
Short-term marketable securities (Note 6)	116	47
Accounts receivable, net of allowance for doubtful accounts of $9 and $6, respectively	221	180
Prepaid expenses and other current assets	18	24
Total current assets	966	865
Long-term marketable securities (Note 6)	29	37
Property and equipment, net of accumulated depreciation of $137 and $88, respectively	262	247
Intangible assets, net of accumulated amortization of $77 and $52, respectively	178	176
Goodwill	744	732
Deferred income taxes, net	44	25
Other long-term assets	54	46
TOTAL ASSETS	$ 2,277	$ 2,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11	$ 10
Deferred merchant payables	152	105
Deferred revenue	69	64
Current portion of debt (Note 7)	76	1
Taxes payable	16	9
Accrued expenses and other current liabilities (Note 9)	126	123
Total current liabilities	450	312
Deferred income taxes, net	20	15
Other long-term liabilities	207	189
Long-term debt (Note 7)	20	200
Total Liabilities	697	716
Commitments and contingencies (Note 11)		
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: 134,565,714 and 133,836,242, respectively		
Shares outstanding: 132,822,184 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	808	741
Retained earnings	944	826
Accumulated other comprehensive income (loss)	(59)	(63)
Treasury stock-common stock, at cost, 1,743,530 and 1,393,131 shares, respectively	(113)	(92)
Total Stockholders’ Equity	1,580	1,412
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,277	$ 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 NINE MONTHS ENDED SEPTEMBER 30, 2016

(in millions, except number of shares)

	Common stock Shares	Common stock Amount	Class B common stock Shares	Class B common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock Shares	Treasury Stock 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						119				119
Cumulative effect adjustment from adoption of ASU 2016-09 (Note 2)						(1)				(1)
Other comprehensive income							4			4
Issuance of common stock related to exercises of options and vesting of RSUs	729,472	-			6					6
Repurchase of common stock								(350,399)	(21)	(21)
Withholding taxes on net share settlements of equity awards					(13)					(13)
Stock-based compensation					74					74
Balance as of September 30, 2016	134,565,714	$ -	12,799,999	$ -	$ 808	$ 944	$ (59)	(1,743,530)	$ (113)	$ 1,580

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

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TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine months ended September 30, 2016		2015	
Operating activities:				
Net income	$	119	$	195
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		51		42
Amortization of intangible assets		23		26
Stock-based compensation expense		64		52
Gain on sale of business		-		(17)
Deferred tax (benefit) expense		(14)		3
Other, net		5		7
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:				
Accounts receivable, prepaid expenses and other assets		(40)		(75)
Accounts payable, accrued expenses and other liabilities		2		24
Deferred merchant payables		42		52
Income taxes, net		19		20
Deferred revenue		6		10
		277		339

Net cash provided by operating activities		
Investing activities:		
Capital expenditures, including internal-use software and website development	(57)	(93)
Acquisitions, net of cash acquired	(23)	(29)
Proceeds from sale of business, net of cash sold	-	22
Purchases of marketable securities	(145)	(150)
Sales of marketable securities	62	72
Maturities of marketable securities	22	52
Net cash used in investing activities	(141)	(126)
Financing activities:		
Repurchase of common stock	(21)	-
Proceeds from Chinese credit facilities	2	4
Payments to Chinese credit facilities	-	(41)
Principal payments on 2011 credit facility	-	(300)
Proceeds from 2015 credit facility, net of financing costs	10	287
Payments to 2015 credit facility	(190)	-
Proceeds from 2016 credit facility, net of financing costs	73	-
Proceeds from exercise of stock options	6	10
Payment of withholding taxes on net share settlements of equity awards	(13)	(66)
Other financing activities, net	-	13
Net cash used in financing activities	(133)	(93)
Effect of exchange rate changes on cash and	(6)	(8)

cash equivalents				
Net (decrease) increase in cash and cash equivalents		(3)		112
Cash and cash equivalents at beginning of period		614		455
Cash and cash equivalents at end of period	$	611	$	567
Supplemental disclosure of non-cash investing and financing activities:				
Capitalization of construction in-process related to build to suit lease obligation	$	-	$	6

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 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 47 markets worldwide. In addition to the flagship TripAdvisor brand, we manage and operate the following 24 other media brands, connected by the common goal of providing comprehensive travel resources across the travel sector: www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.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 12: 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 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 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.

Reclassifications

Except for the prior period reclassifications noted in our disclosure below in “Note 2— Significant Accounting Policies”, which resulted from our early adoption of ASU 2016-09 during the three months ended September 30, 2016, all other reclassifications made to conform the prior period to the current presentation were not material and had no net effect on our unaudited consolidated financial statements.

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 October 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, 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 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. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

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

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This 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 March 2016, the FASB issued new accounting guidance on stock compensation, or ASU 2016-09, 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. 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. 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 statement of cash flows for the nine months ended September 30, 2015 was an increase of $32 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 expense and $2 million of income tax benefit for the three and nine months ended September 30, 2016, respectively, 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	As Adjusted [1][2]
	(in millions, except per share data)	
Consolidated Statement of Operations:		
Operating income	$42	$ 42

Provision for income taxes	(11)	(9)
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)

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	Three months ended June 30, 2016	
	As Reported	As Adjusted (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 Reported	As Adjusted (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 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.

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.

There have been no other 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: ACQUISITIONS

During the nine months ended September 30, 2016, we completed three acquisitions for total purchase price of $27 million. The Company paid net cash consideration of $22 million, which is net of $3 million of cash acquired, and includes $2 million in future holdback payments. The cash consideration was paid primarily from the U.S. 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; and CityMaps, a social mapping platform, purchased in August 2016.

These business combinations were accounted for as purchases of businesses under the acquisition method. The fair value of purchase consideration has been preliminary allocated to tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated 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 unaudited condensed 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 unaudited condensed consolidated financial statements, both individually and in aggregate, is not material. During the nine months ended September 30, 2016, acquisition-related costs of $1 million were expensed as incurred and recorded in general and administrative expenses on our unaudited condensed consolidated statement of operations.

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 primary areas of the purchase price allocation that are not yet finalized are income tax-related balances for all 2016 acquisitions and the estimated fair value of certain identified intangible assets for CityMaps.

The following table presents the purchase price allocations initially recorded on our unaudited condensed consolidated balance sheet for all 2016 acquisitions (in millions):

	Total
Goodwill (1)	$ 13
Intangible assets (2)	22
Net liabilities assumed (3)	(8)
Total purchase price consideration (4)	$ 27

(1) Acquired goodwill of $10 million and $3 million was allocated to our Hotel and Non-Hotel segment, respectively. All 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 10.0 years and technology and other of $18 million with a weighted average life of 5.3 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2016 was 6.3 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.
(3) Includes cash acquired of $3 million.
(4) Subject to adjustment based on (i) final working capital adjustment calculations to be determined for CityMaps, and (ii) indemnification obligations for general representations and warranties of the acquired company stockholders.

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 on our unaudited condensed consolidated statements of operations during the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015

	(in millions)		(in millions)	
Selling and marketing	$ 5	$ 4	$ 15	$ 12
Technology and content	11	8	30	20
General and administrative	6	7	19	20
Total stock-based compensation	22	19	64	52
Income tax benefit from stock-based compensation	(8)	(7)	(23)	(19)
Total stock-based compensation, net of tax effect	$ 14	$ 12	$ 41	$ 33

Stock-Based Award Activity and Valuation

2016 Stock Option Activity

During the nine months ended September 30, 2016, we issued 1,050,842 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.

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A summary of the status and activity for stock option awards relating to our common stock for the nine months ended September 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	1,051	63.45		
Exercised (1)	(692)	31.43		
Cancelled or expired	(209)	71.14		
Options outstanding at September 30, 2016	5,870	$ 57.46	5.7	$ 70
Exercisable as of September 30, 2016	2,794	$ 42.66	4.4	$ 66

(1) Inclusive of 302,531 options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and 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 September 30, 2016 was $63.18. The total intrinsic value of stock options exercised for the nine months ended September 30, 2016 and 2015 was $23 million and $128 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Risk free interest rate	1.15 %	1.67 %	1.20 %	1.52 %
Expected term (in years)	5.17	5.24	4.85	5.21
Expected volatility	42.68 %	40.24 %	41.83 %	41.76 %
Expected dividend yield	— %	— %	— %	— %

The weighted-average grant date fair value of options granted was $22.95 and $33.24 for the nine months ended September 30, 2016 and 2015, respectively. The total fair value of stock options vested for the nine months ended September 30, 2016 and 2015 was $27 million and $30 million, respectively.

2016 RSU Activity

During the nine months ended September 30, 2016, we issued 1,886,536 RSUs under the 2011 Plan for which the fair value was measured based on the quoted price of our common stock on the date of grant. These RSUs generally vest over a four-year requisite service period.

The following table presents a summary of our RSU activity during the nine months ended September 30, 2016:

	RSUs Outstanding (in thousands)	Weighted Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of January 1, 2016	1,750	$ 79.02	
Granted	1,887	63.96	
Vested and released (1)	(492)	74.12	
Cancelled or expired	(217)	73.60	
Unvested RSUs outstanding as of September 30, 2016	2,928	$ 70.52	$ 185

(1) Inclusive of 140,873 RSUs withheld to satisfy employee withholding tax requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

Unrecognized Stock-Based Compensation

A summary of our remaining unrecognized stock-based compensation expense, unadjusted for estimated forfeitures, and the weighted average remaining amortization period at September 30, 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	$ 57	$ 163
Weighted average period remaining (in years)	2.4	2.9

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 treasury shares repurchased during the reporting period.

Diluted Earnings Per Share Attributable to Common Stockholders

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

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise 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 award to repurchase common stock at the average market price for the period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income	$55	$74	$119	$195
Denominator:				
Weighted average shares used to compute Basic EPS	145,678	144,133	145,618	143,662
Weighted average effect of dilutive securities:				
Stock options	1,135	1,442	1,229	1,959
RSUs	404	253	314	265
Weighted average shares used to compute Diluted EPS	147,217	145,828	147,161	145,886
Basic EPS	$0.38	$0.51	$0.82	$1.35
Diluted EPS	$0.37	$0.51	$0.81	$1.34

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

	Three months ended September 30,		Nine months ended September 30,	
	2016(1)	2015(2)	2016(1)	2015(2)
Stock options	3,065	2,110	2,997	2,119
RSUs	691	303	753	629
Total	3,756	2,413	3,750	2,748

(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.

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 for the periods presented (in millions):

	September 30, 2016						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 604	$ -	$ -	$ 604	$ 604	$ -	$ -
Level 1:							
Money market funds	4	-	-	4	4	-	-
Level 2:							
U.S. agency securities	25	-	-	25	-	24	1
U.S. treasury securities	5	-	-	5	-	5	-
Certificates of deposit	16	-	-	16	-	16	-
Commercial paper	8	-	-	8	3	5	-
Corporate debt securities	94	-	-	94	-	66	28
Subtotal	148	-	-	148	3	116	29
Total	$ 756	$ -	$ -	$ 756	$ 611	$ 116	$ 29

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