TripAdvisor, Inc.
Form 10-Q
November 05, 2015

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 September 30, 2015

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)

(781) 800-5000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,

if changed since last report)

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 October 30, 2015
Common Stock, $0.001 par value per share	131,386,699 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, 2015

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

TRIPADVISOR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	$415	$354	$1,183	$958
Costs and expenses:				
Cost of revenue (1)	16	11	46	28
Selling and marketing (2)	197	159	546	387
Technology and content (2)	54	46	152	125
General and administrative (2)	37	36	114	94
Depreciation	13	12	42	33
Amortization of intangible assets	10	6	26	11
Total costs and expenses	327	270	926	678
Operating income	88	84	257	280
Other income (expense):				
Interest expense	(3)	(2)	(7)	(6)
Interest income and other, net (Note 16)	13	(7)	15	(7)
Total other income (expense), net	10	(9)	8	(13)
Income before income taxes	98	75	265	267
Provision for income taxes	(24)	(21)	(70)	(77)
Net income	$74	$54	$195	$190
Earnings per share attributable to common stockholders (Note 14):				
Basic	$0.51	$0.38	$1.35	$1.33
Diluted	$0.51	$0.37	$1.34	$1.30
Weighted average common shares outstanding (Note 14):				
Basic	144	143	144	143
Diluted	146	146	146	146
(1) Excludes amortization expense as follows:				
Amortization of acquired technology included in amortization of intangible assets	$2	$1	$7	$2
Amortization of website development costs included in depreciation	8	8	27	21
	$10	$9	$34	$23
(2) Includes stock-based compensation expense as follows:				

Selling and marketing	$4	$4	$12	$10
Technology and content	$8	$7	$20	$19
General and administrative	$7	$6	$20	$17

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

TRIPADVISOR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$74	$54	$195	$190
Other comprehensive income (loss):				
Foreign currency translation adjustments (1)	(10)	(14)	(29)	(14)
Reclassification adjustment on sale of business included in total other income (expense), net (Note 3)	1	-	1	-
Total other comprehensive loss	(9)	(14)	(28)	(14)
Comprehensive income	$65	$40	$167	$176

(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 consolidated financial statements.

TRIPADVISOR, INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 567	$ 455
Short-term marketable securities (Note 5)	119	108
Accounts receivable, net of allowance for doubtful accounts of $8 and $7 at September 30, 2015 and December 31, 2014, respectively	224	151
Prepaid expenses and other current assets	33	33
Total current assets	943	747
Long-term marketable securities (Note 5)	44	31
Property and equipment, net (Note 6)	247	195
Intangible assets, net (Note 7)	186	214
Goodwill (Note 7)	735	734
Other long-term assets	43	37
TOTAL ASSETS	$ 2,198	$ 1,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17	$ 19
Deferred merchant payables	142	93
Deferred revenue	67	57
Current portion of debt (Note 8)	1	78
Taxes payable	-	20
Accrued expenses and other current liabilities (Note 10)	129	114
Total current liabilities	356	381
Deferred income taxes, net	42	39
Other long-term liabilities (Note 11)	187	154
Long-term debt (Note 8)	287	259
Total Liabilities	872	833
Commitments and contingencies (Note 12)		
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: 133,562,301 and 132,315,465		
Shares outstanding: 131,368,128 and 130,121,292		

Class B common stock, $0.001 par value	-	-
Authorized shares: 400,000,000		
Shares issued and outstanding: 12,799,999 and 12,799,999		
Additional paid-in capital	707	673
Retained earnings	823	628
Accumulated other comprehensive income (loss)	(59)	(31)
Treasury stock-common stock, at cost, 2,194,173 and 2,194,173 shares	(145)	(145)
Total Stockholders’ Equity	1,326	1,125
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,198	$ 1,958

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

TRIPADVISOR, INC.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(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, 2014	132,315,465	$ -	12,799,999	$ -	$ 673	$ 628	$ (31)	(2,194,173)	$ (145)	$ 1,125
Net income						195				195
Other comprehensive loss							(28)			(28)
Issuance of common stock related to exercises of options and vesting of RSUs	1,246,836	-			10					10
Tax benefits on equity awards, net					31					31
Minimum withholding taxes on net share settlements of equity awards					(66)					(66)
Stock-based compensation					59					59
Balance as of September 30, 2015	133,562,301	$ -	12,799,999	$ -	$ 707	$ 823	$ (59)	(2,194,173)	$ (145)	$ 1,326

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

TRIPADVISOR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine months ended September 30, 2015			2014		
Operating activities:						
Net income	$	195		$	190	
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		42			33	
Amortization of intangible assets		26			11	
Stock-based compensation expense		52			46	
Gain on sale of business		(17	)		-	
Deferred tax expense (benefit)		3			(8	)
Excess tax benefits from stock-based compensation		(32	)		(20	)
Other, net		7			13	
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:						
Accounts receivable, prepaid expenses and other assets		(75	)		(45	)
Accounts payable, accrued expenses and other liabilities		24			47	
Deferred merchant payables		52			13	

Income taxes, net	20	34
Deferred revenue	10	12
Net cash provided by operating activities	307	326
Investing activities:		
Capital expenditures, including internal-use software and website development	(93)	(55)
Acquisitions, net of cash acquired	(29)	(284)
Proceeds from sale of business, net of cash sold	22	-
Purchases of marketable securities	(150)	(219)
Sales of marketable securities	72	325
Maturities of marketable securities	52	88
Net cash used in investing activities	(126)	(145)
Financing activities:		
Proceeds from Chinese credit facilities	4	11
Payments to Chinese credit facilities	(41)	(3)
Principal payments on term loan	(300)	(30)
Proceeds from revolving credit facility, net of financing costs	287	-
Proceeds from exercise of stock options	10	2
Payment of minimum withholding taxes on net share settlements of equity awards	(66)	(32)
Excess tax benefits from stock-based compensation	32	20
Proceeds from lease incentives related to construction financing obligation on build to suit lease	12	-
Other financing activities, net	1	(3)

Net cash used in financing activities		(61)		(35)
Effect of exchange rate changes on cash and cash equivalents		(8)		(6)
Net increase in cash and cash equivalents		112		140
Cash and cash equivalents at beginning of period		455		351
Cash and cash equivalents at end of period	$	567	$	491
Supplemental disclosure of non-cash investing and financing activities:				
Capitalization of construction in-process related to build to suit lease	$	6	$	42

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

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TRIPADVISOR, INC.

NOTES TO UNAUDITED 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 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, vacation rentals, flights, activities and attractions, and restaurants.

Our flagship brand is TripAdvisor. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 46 countries worldwide. In addition to the flagship TripAdvisor brand, we manage and operate 23 other media brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector, which include: www.airfarewatchdog.com, www.bookingbuddy.com, www.cruisecritic.com, www.everytrail.com, www.familyvacationcritic.com, www.flipkey.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, and www.dimmi.com.au), www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.independenttraveler.com, www.jetsetter.com, 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 derive the substantial portion of our revenue through the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based advertising. In addition, we earn revenue from a combination of: subscription-based and transaction-based offerings from our Business Listings products; subscription and commission-based offerings from our Vacation Rentals products; transaction revenue from selling room nights through our Jetsetter and Tingo brands; selling destination activities, primarily through Viator; fulfilling online restaurant reservations, primarily through Lafourchette; as well as other revenue including content licensing.

We have two reportable segments: Hotel and Other. Our Other segment consists of the aggregation of three operating segments: our Attractions, Restaurants and Vacation Rentals businesses. 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. For further information on our reportable segments see "Note 13 — Segment Information," in these notes to our unaudited consolidated financial statements.

Basis of Presentation

The accompanying unaudited financial statements present our results of operations, financial position and cash flows on a consolidated basis. The accompanying unaudited 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. We have eliminated significant intercompany transactions and accounts.

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 consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. We prepared the unaudited 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 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 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, 2014, previously filed with the SEC.

Reclassifications

Pursuant to our disclosure in “Note 16— Segment and Geographic Information” 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, 2014, management revised our reportable segments. All prior period disclosures have been reclassified to conform to the current reporting structure. These reclassifications had no effect on our unaudited consolidated financial statements.

In addition, refer to our discussion in “Note 2— Significant Accounting Policies” below for a required prior period reclassification 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 unaudited consolidated financial statements.

Accounting Estimates

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

Seasonality

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncements

In April 2015, the FASB issued new accounting guidance which requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. In August 2015, additional accounting guidance was issued on this topic that clarifies the April 2015 guidance for debt issuance costs associated with line-of-credit arrangements, which states the FASB would not object to the continued deferral and presentation of debt issuance costs as an asset, which would be subsequently amortized over the term of the arrangement. This guidance is effective for fiscal years, and the interim periods within those fiscal years, beginning after December 15, 2015, with early application permitted. The Company has early adopted this guidance. The retrospective application of this guidance decreased “Other long-term assets” and “Long-term debt” by $1 million on the consolidated balance sheet as of December 31, 2014. Refer to “Note 8— Debt” below for the current year presentation.

New Accounting Pronouncements Not Yet Adopted

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. This update is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the Financial Accounting Standards Board (“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. 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 we are currently evaluating the effect that the updated standard will have on our consolidated financial statements or related disclosures.

There have been no material changes to our significant accounting policies since December 31, 2014. 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, 2014.

NOTE 3: ACQUISITIONS AND DISPOSITIONS

Acquisition of Businesses

During the nine months ended September 30, 2015, we completed three acquisitions for a total purchase price consideration of $28 million. 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.

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 unaudited consolidated financial statements beginning on the respective acquisition dates. Pro-forma results of operations for all of these acquisitions have not been presented as the financial impact to our unaudited consolidated financial statements, both individually and in aggregate, is not material. During the nine months ended September 30, 2015, acquisition-related costs of $1 million were expensed as incurred and recorded in general and administrative expenses on our unaudited consolidated statement of operations.

The purchase price allocation of our 2015 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 on a retroactive basis. The primary areas of the purchase price allocation that are not yet finalized are income tax-related balances for all 2015 acquisitions. Acquired goodwill related to our 2015 acquisitions was primarily allocated to our Other segment and is not deductible for tax purposes.

The following table presents the purchase price allocations initially recorded on our unaudited consolidated balance sheet for all 2015 acquisitions (in millions):

	Total

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

(1) Identifiable definite-lived intangible assets acquired during 2015 were comprised of trade names of $2 million with a weighted average life of 9.9 years, customer lists and supplier relationships of $7 million with a weighted average life of 5.9 years and technology and other of $3 million with a weighted average life of 2.5 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2015 was 6.0 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.

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

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, which includes $3 million currently held back by the purchaser for certain short-term contingencies. Accordingly, we deconsolidated $11 million of assets (which included $3 million of cash sold) and $4 million of liabilities from our unaudited consolidated balance sheet and recognized an initial $17 million gain on sale of subsidiary in our unaudited consolidated statement of operations in "Interest income and other, net" during the three and nine months ended September 30, 2015, respectively.

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 restricted stock units ("RSUs"), on our unaudited consolidated statements of operations during the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in millions)		(in millions)	
Selling and marketing	$4	$4	$12	$10
Technology and content	8	7	20	19
General and administrative	7	6	20	17
Total stock-based compensation expense	19	17	52	46
Income tax benefit from stock-based compensation expense	(7)	(6)	(19)	(17)
Total stock-based compensation expense, net of tax effect	$12	$11	$33	$29

Stock-Based Award Activity and Valuation

2015 Stock Option Activity

During the nine months ended September 30, 2015, we issued 395,613 service-based non-qualified stock options under the Company's 2011 Stock and Annual Incentive Plan, as amended (the "2011 Plan"). These stock options have a term of ten years from the date of grant and 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 nine months ended September 30, 2015, is presented below:

Weighted Weighted

	Options Outstanding (in thousands)		Average Exercise Price Per Share	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2015	8,651		$ 44.47		
Granted	396		85.70		
Exercised (1)	(2,759	)	33.78		
Cancelled or expired	(243	)	52.73		