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

Table of Contents

2

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 | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| 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, 2016 | 2015 | Six months ended June 30, 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 | 2016 | 2015 |
| Risk free interest rate | 1.08 % | 1.55 % | 1.20 % | 1.52 % |
| Expected term (in years) | 4.31 | 5.24 | 4.84 | 5.21 |
| Expected volatility | 42.09 % | 40.66 % | 41.82 % | 41.83 % |
| Expected dividend yield | — % | — % | — % | — % |

The weighted-average grant date fair value of options granted was $22.85 and $33.68 for the six months ended June 30, 2016 and 2015, respectively. The total fair value of stock options vested for the six months ended June 30, 2016 and 2015 was $25 million and $26 million, respectively.

2016 RSU Activity

During the six months ended June 30, 2016, we issued 1,731,401 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 six months ended June 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 | 1,731 | 63.95 | |
| Vested and released (1) | (409 ) | 72.57 | |
| Cancelled | (141 ) | 74.69 | |
| Unvested RSUs outstanding as of June 30, 2016 | 2,931 | $ 71.21 | $ 186 |
| Expected to vest after June 30, 2016 | 2,517 | $ 71.48 | $ 160 |

(1) Inclusive of 121,869 RSUs withheld to satisfy employee minimum tax withholding requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 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, net of estimated forfeitures, and the weighted average remaining amortization period at June 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 (net of estimated forfeitures) | $ 60 | $ 150 |
| Weighted average period remaining (in years) | 2.6 | 3.0 |

NOTE 4: 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, the average unrecognized compensation cost during the period and any tax benefits credited upon exercise to additional paid-in-capital. 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. Windfall tax benefits created upon the exercise of an award would be added to assumed proceeds, while shortfalls charged to additional paid-in-capital would be deducted from assumed proceeds. Any shortfalls not covered by the windfall tax pool would be charged to the income statement and would be excluded from the calculation of assumed proceeds, if any.

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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net income | $34 | $58 | $62 | $121 |
| Denominator: | | | | |
| Weighted average shares used to compute Basic EPS | 145,732 | 143,709 | 145,588 | 143,427 |
| Weighted average effect of dilutive securities: | | | | |
| Stock options | 1,060 | 2,019 | 1,123 | 2,218 |
| RSUs | 268 | 231 | 271 | 271 |
| Weighted average shares used to compute Diluted EPS | 147,060 | 145,959 | 146,982 | 145,916 |
| Basic EPS | $0.23 | $0.40 | $0.42 | $0.85 |
| Diluted EPS | $0.23 | $0.40 | $0.42 | $0.83 |

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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016(1) | 2015(2) | 2016(1) | 2015(2) |
| Stock options | 3,055 | 2,107 | 2,963 | 2,124 |
| RSUs | 682 | 745 | 784 | 793 |
| Total | 3,737 | 2,852 | 3,747 | 2,917 |

(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 5: 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):

| | June 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Short-Term Marketable Securities | Long-Term Marketable Securities |
| Cash | $ 740 | $ - | $ - | $ 740 | $ 740 | $ - | $ - |
| Level 1: | | | | | | | |
| Money market funds | 18 | - | - | 18 | 18 | - | - |
| Level 2: | | | | | | | |
| U.S. agency securities | 29 | - | - | 29 | 3 | 26 | - |
| U.S. treasury securities | 12 | - | - | 12 | 4 | 8 | - |
| Certificates of deposit | 7 | - | - | 7 | - | 7 | - |
| Commercial paper | 5 | - | - | 5 | 1 | 4 | - |
| Corporate debt securities | 80 | - | - | 80 | - | 42 | 38 |
| Subtotal | 133 | - | - | 133 | 8 | 87 | 38 |
| Total | $ 891 | $ - | $ - | $ 891 | $ 766 | $ 87 | $ 38 |

| | 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 | - | - | 89 | 5 | 47 | 37 |
| Total | $ 698 | $ - | $ - | $ 698 | $ 614 | $ 47 | $ 37 |

Our cash and cash equivalents consist of cash on hand in global financial institutions, money market funds and marketable securities with maturities of 90 days or less at the date purchased. The remaining maturities of our long-term marketable securities range from one to three years and our short-term marketable securities include maturities that were greater than 90 days at the date purchased and have 12 months or less remaining at June 30, 2016 and December 31, 2015, respectively.

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

There were no material realized gains or losses related to sales of our marketable securities for the three and six months ended June 30, 2016 and 2015, respectively. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. We consider any individual investments in an unrealized loss position to be temporary in nature and do not consider any of our investments other-than-temporarily impaired as of June 30, 2016.

Derivative Financial Instruments

In certain circumstances, we enter into foreign currency forward exchange contracts ("forward contracts") to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. We do not use derivatives for trading or speculative purposes.

Our current forward contracts are not designated as hedges and have current maturities of less than 90 days. We account for our derivative instruments as either assets or liabilities and carry them at fair value. Consequently, any gain or loss resulting from the change in fair value was recognized in our unaudited condensed consolidated statements of operations. We recorded a net gain of $2 million and $1 million for the three and six months ended June 30, 2016, respectively, related to our settled and outstanding forward contracts in our unaudited condensed consolidated statements of operations in "Interest income and other, net." We recorded a net loss of $1 million and a net gain of $2 million for the three and six months ended June 30, 2015, respectively, related to our settled and outstanding forward contracts in our unaudited condensed consolidated statements of operations in "Interest income and other, net."

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

| | Balance Sheet Caption | June 30, 2016 | | |
|---|---|---|---|---|
| | | Fair Value of Derivative (2) | | U.S. Dollar Notional |
| | | Asset | Liability | |
| | | (in millions) | | |
| Foreign exchange-forward contracts (1) | Prepaid expenses and other current assets | $ 1 | $ - | $ 34 |

| | Balance Sheet Caption | December 31, 2015 | | |
|---|---|---|---|---|
| | | Fair Value of Derivative (2) | | U.S. Dollar Notional |
| | | Asset | Liability | |
| | | (in millions) | | |
| Foreign exchange-forward contracts (1) | | $ - | $ - | $ 25 |

| | |
|---|---|
| | Prepaid expenses and other current assets |

(1) Derivative contracts address foreign exchange fluctuations for the Euro versus the U.S. Dollar.
(2) We measure the fair value of our outstanding or unsettled derivatives using Level 2 fair value inputs, as we use a pricing model that takes into account the contract terms as well as current foreign currency exchange rates in active markets.

Counterparties to currency exchange derivatives consist of major international financial institutions. We monitor our positions and the credit ratings of the counterparties involved and, by policy limits, the amount of credit exposure to any one party. While we may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated and any credit risk amounts associated with our outstanding or unsettled derivative instruments are deemed to be not material for any period presented.

Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include trade receivables, trade payables, deferred merchant payables, short-term debt, accrued and other current liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments as reported on our unaudited condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015, respectively. The carrying value of the long-term debt from our 2015 Credit Facility bears interest at a variable rate and therefore is also considered to approximate fair value.

We did not have any Level 3 assets or liabilities at June 30, 2016 and December 31, 2015.

NOTE 6: DEBT

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (in millions) | |
| Short-Term Debt: | | |
| Chinese Credit Facilities | $ 1 | $ 1 |
| Total Short-Term Debt | $ 1 | $ 1 |
| | | |
| Long-Term Debt: | | |
| 2015 Credit Facility | $ 91 | $ 200 |
| Total Long-Term Debt | $ 91 | $ 200 |

2011 Credit Facility

On December 20, 2011, we entered into a credit agreement (the “2011 Credit Facility”), which provided $600 million of borrowing including:

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

On June 26, 2015, the entire outstanding principal on our Term Loan in the amount of $290 million was repaid with borrowings from our 2015 Credit Facility (described below) and the 2011 Credit Facility was subsequently terminated. During the three and six months ended June 30, 2015, we recorded total interest and commitment fees on our 2011 Credit Facility of $1 million and $3 million, respectively, to interest expense on our unaudited condensed consolidated statements of operations. There was no resulting loss on early extinguishment of this debt.

2015 Credit Facility

On June 26, 2015, we entered into a five year credit agreement (the “2015 Credit Facility”) and immediately borrowed $290 million. The 2015 Credit Facility, among other things, provides for (i) a $1 billion unsecured revolving credit facility, (ii) an interest rate on borrowings and commitment fees based on the Company’s and its subsidiaries’ consolidated leverage ratio; and (iii) uncommitted incremental revolving loan and term loan facilities, subject to compliance with a leverage covenant and other conditions. Any overdue amounts under or in respect of the revolving credit facility not paid when due shall bear interest at (i) in the case of principal, the applicable interest rate plus 2.00% per annum, (ii) in the case of interest denominated in Sterling or Euro, the applicable rate plus 2.00% per annum; and (iii) in the case of interest denominated in US Dollars, 2.00% per annum plus the Alternate Base Rate plus the interest rate spread applicable to ABR loans. The Company may borrow from the 2015 Credit Facility in U.S dollars, Euros and British pound sterling with a term of five years expiring June 26, 2020.

There is no specific repayment date prior to the five-year maturity date for our outstanding borrowings under the 2015 Credit Facility. During the six months ended June 30, 2016, the Company repaid $109 million of our outstanding borrowings on the 2015 Credit Facility.  Based on the Company’s current leverage ratio, our borrowings bear interest at LIBOR plus 125 basis points, or the Eurocurrency Spread. The Company is currently borrowing under a one-month interest period of 1.8% per annum, using a one-month interest period Eurocurrency Spread, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period.

We are also required to pay a quarterly commitment fee, on the daily unused portion of the revolving credit facility for each fiscal quarter and fees in connection with the issuance of letters of credit. Unused revolver capacity is currently subject to a commitment fee of 20.0 basis points, given the Company's current leverage ratio. The 2015 Credit Facility includes $15 million of borrowing capacity available for letters of credit and $40 million for borrowings on same-day notice. As of June 30, 2016, we had issued $2 million of outstanding letters of credit under the 2015 Credit Facility.

During the three and six months ended June 30, 2016, we recorded total interest and commitment fees on our 2015 Credit Facility of $1 million and $3 million, respectively, to interest expense on our unaudited condensed consolidated statements of operations. During the three and six months ended June 30, 2015, respectively, total interest and commitment fees recorded under our

2015 Credit Facility to interest expense on our unaudited condensed consolidated statements of operations were not material. Unpaid interest and commitment fees as of June 30, 2016 were not material.

We may voluntarily repay any outstanding borrowing under the 2015 Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to Eurocurrency loans. Certain wholly-owned domestic subsidiaries of the Company have agreed to guarantee the Company's obligations under the 2015 Credit Facility.

The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under 2015 Credit Facility. As of June 30, 2016, we are in compliance with all of our debt covenants.

Chinese Credit Facilities

In addition to our borrowings under the 2015 Credit Facility, we maintain our Chinese Credit Facilities. As of June 30, 2016 and December 31, 2015, we had short-term borrowings outstanding of $1 million.

We are parties to a $30 million, one-year revolving credit facility with Bank of America (the "Chinese Credit Facility—BOA") that is currently subject to review on a periodic basis with no specific expiration period. Our Chinese Credit Facility—BOA currently bears interest at a rate based on 100% of the People's Bank of China's base rate, which was 4.35% as of June 30, 2016. As of June 30, 2016, we had $1 million of outstanding borrowings from the Chinese Credit Facility—BOA.

We are also parties to a RMB 125,000,000 (approximately $20 million), one-year revolving credit facility with J.P. Morgan Chase Bank ("Chinese Credit Facility—JPM"). Our Chinese Credit Facility—JPM currently bears interest at a rate based on 100% of the People's Bank of China's base rate, which was 4.35% as of June 30, 2016. As of June 30, 2016, there are no outstanding borrowings under our Chinese Credit Facility – JPM.

NOTE 7: INCOME TAXES

Each interim period is considered an integral part of the annual period and, accordingly, we measure our tax expense using an estimated annual effective tax rate. An enterprise is required, at the end of each interim reporting period, to make its best estimate of the annual effective tax rate for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, as adjusted for discrete taxable events that occur during the interim period.

Our effective tax rate for the three and six months ended June 30, 2016 was 24.4% and 26.2%, respectively. Our effective tax rate for the three and six months ended June 30, 2015 was 29.3% and 28.0%, respectively. For both the three and six months periods ended June 30, 2016, the effective tax rate is less than the federal statutory rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, which was partially offset by state income taxes, non-deductible stock compensation and accruals on uncertain tax positions. The change in the effective tax rate for 2016 compared to the 2015 rate was primarily due to a change in jurisdictional earnings.

Our policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities as part of our income tax expense. As of June 30, 2016, accrued interest is $5 million, net of federal benefit, and no penalties have been accrued. We do not anticipate any material releases in the next twelve months.

By virtue of previously filed consolidated income tax returns filed with Expedia, we are currently under an Internal Revenue Service (“IRS”) audit for the 2009 and 2010 tax years, and have various ongoing state income tax audits. We are separately under examination by the IRS for the 2012 and 2013 tax years and have an employment tax audit with the IRS for the 2013 and 2014 tax years. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. These examinations may lead to proposed adjustments to our taxes. We are no longer subject to tax examinations by tax authorities for years prior to 2007. As of June 30, 2016, no material assessments have resulted.

During the year ended December 31, 2015, we received notification of a draft proposed adjustment from the IRS for the 2009 and 2010 tax years and we anticipate receiving additional notices of proposed adjustments for the same years. These proposed adjustments are related to transfer pricing with our foreign subsidiaries, and would result in an increase to U.S. taxable income and federal tax expense for 2009 and 2010, subject to interest. Our policy is to review and update tax reserves as facts and circumstances change. Based on our interpretation of the regulations and available case law, we believe the position we have taken with regard to transfer pricing with our foreign subsidiaries is sustainable. We intend to defend our position through IRS administrative and, if necessary, judicial remedies. As of June 30, 2016, no additional adjustments have been proposed.

In July 2015, the United States Tax Court (the "Court") issued an opinion favorable to Altera Corporation ("Altera") with respect to Altera's litigation with the IRS. This opinion was submitted as a final decision under Tax Court Rule 155 during December 2015. The litigation relates to the treatment of stock-based compensation expense in an inter-company cost-sharing arrangement with Altera's foreign subsidiary. In its opinion, the Court accepted Altera's position of excluding stock based compensation from its inter-company cost-sharing arrangement. The IRS appealed the Court decision on February 19, 2016. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation in intercompany cost-sharing arrangements. The Company recorded a tax benefit of $13 million in its consolidated statement of operations for the year ended December 31, 2015 and an additional $1 million and $2 million during the three and six months ended June 30, 2016, respectively. The Company will continue to monitor this matter and related potential impacts to its consolidated financial statements.

NOTE 8: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (in millions) | |
| Accrued salary, bonus, and related benefits | $ 40 | $ 47 |
| Accrued marketing costs | 61 | 43 |
| Other | 52 | 33 |
| Total | $ 153 | $ 123 |

NOTE 9: STOCKHOLDERS' EQUITY

On February 15, 2013, our Board of Directors authorized the repurchase of $250 million of our shares of common stock under a share repurchase program. The repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time. Our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders.

During the six months ended June 30, 2016, we repurchased 208,137 shares of outstanding common stock under the share repurchase program at an aggregate cost of $12 million, or an average share price of $59.79. As of June 30, 2016, we have repurchased 2,328,846 shares of outstanding common stock under the share repurchase program at an aggregate cost of $158 million. As of June 30, 2016, we have a remaining amount from the authorized share repurchase program granted by the Board of Directors of $92 million to repurchase shares of our common stock.

NOTE 10: COMMITMENTS AND CONTINGENCIES

There have been no material changes to our commitments and contingencies since December 31, 2015. Refer to "Note 12: Commitments and Contingencies," in the notes to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

Legal Proceedings

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

Income Taxes

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

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flows, in foreign jurisdictions which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows. See "Note 7: Income Taxes" above for further information on potential contingencies surrounding income taxes.

NOTE 11: SEGMENT INFORMATION

Our reporting structure includes two reportable segments: Hotel and Non-Hotel.

Hotel

Our Hotel segment includes revenue generated from services related to hotels, including click-based advertising revenue from making hotel room night reservations available for price comparison and commission-based transactions via our instant booking feature, as well as display-based advertising, subscription-based hotel advertising (or Business Listings), room reservations sold through our websites, and from content licensing. Our Hotel segment also includes click-based advertising revenue from making airline reservations and cruise reservations available for price comparison and booking. Our chief operating decision maker is also the Hotel segment manager.

Non-Hotel

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

Attractions. We provide, primarily through Viator, information and services for researching and booking destination activities around the world. Viator works with local operators to provide travelers with access to tours and activities in popular destinations worldwide, earning a commission for such service. In addition to its consumer-direct business, Viator also provides local experiences to affiliate partners, including some of the world's top airlines, hotels and travel agencies.

Restaurants. We have several websites that provide online and mobile reservation services that connect restaurants with diners. These websites are currently primarily focused on the European and Australian markets, primarily through thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, and www.dimmi.com.au). Thefork.com is an online restaurant booking platform with a network of restaurant partners primarily across Europe and Australia. Thefork.com also helps restaurants to maximize business by providing a flexible online booking and data tool. We generate revenue primarily by charging a fee for each restaurant guest seated through the online reservation systems.

Vacation Rentals. We offer individual property owners and property managers the ability to list their properties available for rental and connect with travelers using a subscription-based fee structure or a free-to-list, commission per booking based option. Our vacation rental inventory currently includes full home rentals, condos, villas, beach rentals, cabins and cottages. These properties are listed across a number of platforms, including TripAdvisor Vacation Rentals, U.S.-based FlipKey and Vacation Home Rentals, and European-based Holiday Lettings, HouseTrip, and Niumba businesses.

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

Adjusted EBITDA is our segment profit measure and a key measure used by our management and board of directors to understand and evaluate the operating performance of our business and on which internal budgets and forecasts are based and approved. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. We define Adjusted EBITDA as net income (loss) plus: (1) provision for income taxes; (2) other income (expense), net; (3) depreciation of property and equipment, including amortization of internal use software and website development; (4) amortization of intangible assets; (5) stock-based compensation and other stock-settled obligations; (6) goodwill, long-lived asset and intangible asset impairments; and (7) non-recurring expenses and income.

The following tables present our segment information for the three and six months ended June 30, 2016 and 2015, and includes a reconciliation of Adjusted EBITDA to Net Income, the most directly comparable financial measure calculated and presented in accordance with GAAP. We record depreciation of property and equipment, including amortization of internal-use software and website development, amortization of intangible assets, stock-based compensation and other stock-settled obligations, other income (expense), net, other non-recurring expenses and income, net, and income taxes, which are excluded from segment operating performance, in corporate and unallocated. In addition, we do not report our assets, capital expenditures and related depreciation expense by segment as our chief operating decision maker does not evaluate operating segments using this information. We also do not regularly provide such information by segment to our chief operating decision maker. Our consolidated general and administrative expenses, excluding stock-based compensation costs, are shared by all operating segments. Each operating segment receives an allocated charge based on the segment's percentage of the Company's total personnel costs.

| | Three months ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Hotel | Non-Hotel | Corporate and Unallocated | Total |
| | (in millions) | | | |
| Revenue | $316 | $ 75 | $ - | $391 |
| Adjusted EBITDA (1) | 105 | (10 ) | - | 95 |
| Depreciation | | | (17 ) | (17 ) |
| Amortization of intangible assets | | | (8 ) | (8 ) |
| Stock-based compensation | | | (22 ) | (22 ) |
| Operating income (loss) | | | | 48 |
| Other expense, net | | | | (3 ) |
| Income before income taxes | | | | 45 |
| Provision for income taxes | | | | (11 ) |
| Net income | | | | $34 |

| | Three months ended June 30, 2015 | | | |
|---|---|---|---|---|
| | Hotel | Non-Hotel | Corporate and Unallocated | Total |
| | (in millions) | | | |
| Revenue | $343 | $ 62 | $ - | $405 |
| Adjusted EBITDA (2) | 125 | (2 ) | - | 123 |
| Depreciation | | | (15 ) | (15 ) |
| Amortization of intangible assets | | | (9 ) | (9 ) |
| Stock-based compensation | | | (18 ) | (18 ) |
| Other non-recurring expenses | | | (2 ) | (2 ) |
| Operating income (loss) | | | | 79 |
| Other income, net | | | | 3 |
| Income before income taxes | | | | 82 |
| Provision for income taxes | | | | (24 ) |
| Net income | | | | $58 |

| | Six months ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Hotel | Non-Hotel | Corporate and Unallocated | Total |
| | (in millions) | | | |
| Revenue | $619 | $ 124 | $ - | $743 |
| Adjusted EBITDA (1) | 211 | (31 ) | - | 180 |
| Depreciation | | | (33 ) | (33 ) |
| Amortization of intangible assets | | | (15 ) | (15 ) |
| Stock-based compensation | | | (42 ) | (42 ) |
| Operating income (loss) | | | | 90 |
| Other expense, net | | | | (6 ) |
| Income before income taxes | | | | 84 |
| Provision for income taxes | | | | (22 ) |
| Net income | | | | $62 |

| | Six months ended June 30, 2015 | | | |
|---|---|---|---|---|
| | Hotel | Non-Hotel | Corporate and Unallocated | Total |
| | (in millions) | | | |
| Revenue | $663 | $ 105 | $ - | $768 |
| Adjusted EBITDA (2) | 257 | (8 ) | - | 249 |
| Depreciation | | | (28 ) | (28 ) |
| Amortization of intangible assets | | | (16 ) | (16 ) |
| Stock-based compensation | | | (34 ) | (34 ) |
| Other non-recurring expenses | | | (2 ) | (2 ) |
| Operating income (loss) | | | | 169 |
| Other expense, net | | | | (1 ) |
| Income before income taxes | | | | 168 |
| Provision for income taxes | | | | (47 ) |
| Net income | | | | $121 |

(1) Includes allocated general and administrative expenses in our Hotel segment of $19 million and $41 million; and in our Non-Hotel segment of $9 million and

$18 million for the three and six months ended June 30, 2016, respectively.

(2) Includes allocated general and administrative expenses in our Hotel segment of $26 million and $46 million; and in our Non-Hotel segment of $9 million and $15 million for the three and six months ended June 30, 2015, respectively.

NOTE 12: RELATED PARTY TRANSACTIONS

We consider Liberty TripAdvisor Holdings, Inc. (“LTRIP”) a related party. As of June 30, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 13.7% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.3% of the outstanding common stock. Because each share of Class B common stock generally is entitled to ten votes per share and each share of common stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing approximately 56.0% of our voting power.

We had no related party transactions with LTRIP during the three and six months ended June 30, 2016 and 2015.

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

The information included in this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q, and the consolidated financial statements and accompanying notes, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2016, Part II, Item 1A, "Risk Factors." Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as "anticipates," "estimates," "expects," "intends," "plans" and "believes," among others, generally identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Overview

TripAdvisor, Inc., by and through its subsidiaries, owns and operates a portfolio of leading online travel brands. TripAdvisor, our flagship brand, is the world's largest travel site, and our mission is to help people around the world plan and book the perfect trip. We accomplish this by, among other things, aggregating millions of travelers' reviews and opinions 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 TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the TripAdvisor website in 47 markets worldwide. Our TripAdvisor-branded websites reached 350 million average monthly unique visitors during the quarter ended June 30, 2016, according to our internal log files. We currently feature 385 million reviews and opinions on 6.6 million places to stay, places to eat and things to do – including 1,035,000 hotels and accommodations and 815,000 vacation rentals, 4.1 million restaurants and 690,000 attractions around the world. In addition to user-generated content, our websites feature price comparison tools and links to partner websites, including travel advertisers, on which users can book their travel arrangements. Users can also complete hotel bookings directly without our partners through tripadvisor.com and also through the TripAdvisor mobile application where coverage is available. In addition to the flagship TripAdvisor brand, we now manage and operate 23 other travel media brands, connected by the common goal of providing users the most comprehensive travel-planning and trip-taking resources in the travel industry.

Executive Summary and Trends

In the first quarter of 2016, we made the following changes to our internal reporting: (1) we are providing additional disclosure on our revenue sources within our Hotel segment, which replaced our previously reported revenue disclosures of click-based advertising revenue, display based advertising revenue, and subscription, transaction and other revenues; and (2) we have changed the name of our "Other" reportable segment to "Non-Hotel." These changes 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. These reporting changes are described more fully in the following discussion.

Our long-term financial results are highly dependent on our ability to grow our Hotel segment. We are investing in areas of potential growth, including enabling users to transact directly on our site through our instant booking feature, international expansion and innovations in the mobile user experience. We are also investing in our Non-Hotel segment, which includes our Attractions, Restaurants and Vacation Rental businesses. As the largest online travel website, we believe we are an attractive marketing channel for advertisers—including hotel chains, independent hoteliers, online travel agencies, destination marketing organizations, and other travel-related and non-travel related product and service providers— who seek to sell their products and services to our large user base. The key drivers of our financial results are described below, including a summary of our key growth areas and current trends impacting our business, including our reportable segments.

Key Growth Areas

We continue to invest in areas of potential growth, including our content and community, product innovation, and expansion into international markets and adjacent businesses.

Content & Community.  TripAdvisor is a website on which travelers can research content and share their travel experiences with the rest of the world. Establishing and nurturing a sense of community among users and brand loyalty is a key priority and a competitive advantage for TripAdvisor. As a result, we continue to look for ways to make it easier for users to plan and book their perfect trip on TripAdvisor as well as to share their experiences.

Mobile.  Innovating and improving our mobile products is a key priority.  During the three months ended June 30, 2016, more than half of our average monthly unique visitors came from mobile phone and tablet, and average monthly unique visitors via mobile phone and tablet devices grew 22% year-over-year, according to our log files. We anticipate that the rate of growth in mobile visitors will continue to exceed the growth rate of our overall unique monthly visitors, and that an increasing proportion of users will use mobile devices to access the full range of services available on our sites. We are investing significant resources to improve the features, functionality and commercialization of our mobile websites and applications.

Instant Booking. Instant booking is a feature that enables users to book a hotel reservation directly with a hotel or online travel agency (“OTA”) partner, while remaining on the TripAdvisor website. We believe that allowing users to book directly online without leaving our TripAdvisor websites will result in a better user experience as well as, ultimately, generate additional revenue to the Company. As a result, since June 2014, we have been gradually rolling this feature out in the U.S. and, in 2015, accelerated the rollout for hotels across our U.S. and U.K. platforms to all users on all devices.  In 2016, we continued to roll out instant booking to additional countries and, as of June 30, 2016, completed our global rollout on all devices.  Our business success depends in large part on our ability to maintain and expand relationships with our partners in the travel industry.  These partners power the instant booking feature on our website and, we believe, will benefit from this feature through increased reservations and more direct relationships with travelers.

International Expansion. We are focused on strengthening our broad global footprint as we believe that penetrating international markets represents a long-term opportunity for us. We continue to improve localization and grow our user base in Europe, Asia and South America, especially in emerging markets such as Brazil, Russia and China, including a lead product offering in the Chinese market—Mao Tu Ying (or TripAdvisor China) — headquartered in Beijing.

Attractions, Restaurants and Vacation Rentals. TripAdvisor has information and user-generated content on 4.1 million restaurants and 690,000 attractions around the world. As a significant percentage of our users come to our websites for this content but are not hotel shoppers, we believe TripAdvisor has a unique opportunity to monetize its community of these non-hotel shoppers looking for places to eat and things to do. With the acquisitions of our online restaurant reservation businesses, and Viator for online bookable tours and attractions, we are attempting to match more users with more businesses. In addition, we provide access to vacation rentals to our users by offering individual property owners and property managers the ability to list their properties using a free-to-list, commission-based structure or a subscription-based fee option. We believe our highly-engaged and motivated user community creates a competitive advantage for us in this market.  In the six months ended June 30, 2016, Vacation Rental property listings grew 10% to 815,000 properties, primarily driven by strong listings growth in our free-to-list model.

Current Trends Affecting Our Business

There are a number of trends that affect our business. The following are some examples:

Continued Shift to Online Travel and Social Media to Access Travel Information. According to Phocuswright, global travel spending is expected to be greater than $1.3 trillion in 2016. Travel related commerce, information and advertising continue to migrate to the Internet and away from traditional media outlets. For example, consumers are increasingly using online social media channels, such as Facebook and Twitter, as a means to communicate and exchange information, including travel information and opinions. We believe this trend will continue to create strategic growth opportunities, allowing us to attract new consumers and develop unique and effective advertising solutions. Over the years, we have made significant progress using social networking to leverage the expanding use of these channels and enhance traffic diversification and user engagement.

We believe that the Internet will continue to become even more integral to the travel-planning process due to increasing worldwide online penetration, particularly given the capabilities that the Internet provides travelers, including the ability to refine searches, compare destinations, view real-time pricing, complete bookings, and access information while in-destination. We will continue to adapt our user experience in response to a changing Internet environment and usage trends.

Increasing Competition. The travel planning industry and, more generally, the business of collecting and aggregating travel-related resources and information as well as enabling consumers to purchase travel-related products, continues to be increasingly competitive. There are an increasing number of companies who collect and aggregate travel information and resources and enable consumers to plan and book travel. These include search companies, such as Google, Inc. and Baidu.com, Inc.; large and increasingly consolidating online travel agencies, or OTAs (such as Expedia and Priceline and their respective subsidiaries); as well as new global entrants such as Airbnb, Inc. and Alibaba. We plan to continue to invest in order to remain the leading source of travel reviews as well as to continue to enhance our user experience. For further description of our competition see Item 1. “Business”, in our Annual Report on Form 10-K for the year ended December 31, 2015.

Accelerated Rollout of Instant Booking. Hotel revenue from our instant booking feature is included in our TripAdvisor-branded click-based advertising and transaction revenue in our Hotel segment. Currently our instant booking feature is monetizing at a lower revenue per hotel shopper rate than our metasearch feature, or click-based advertising revenue. We continue to work to close this monetization gap, primarily by streamlining our booking path to optimize user experience, continuing to seek partners with strong branding and supply channels in order to try and achieve higher conversion rates and repeat hotel bookings, persistently promoting the TripAdvisor brand as the place to plan, compare prices, and book travel. In addition, our instant booking revenue recorded under the consumption model is recognized at the time the traveler consumes, or completes, the stay. Comparatively, instant booking revenue under the transaction model is recorded at the time the user books the stay and revenue generated from our metasearch feature, or click-based advertising revenue, is recorded when a traveler makes the click-through to the travel partners' websites, even if the traveler does not book during that search. Based on our internal data, we estimate the average time between a user booking a stay to consuming a stay is approximately three to five weeks, and is subject to seasonal variations. In future periods, greater contribution from our instant booking consumption model to TripAdvisor-branded click-based and transaction revenue could result in additional revenue recognized at the time of a consumed stay and therefore a shift in the timing of our revenue recognition.

Evolution of the End to End Travel Experience. We believe our role in the overall travel experience continues to grow in importance in the travel industry, as we emphasize to travelers that we are the place to come plan, compare prices and book their trip. Our websites globally reached 350 million average monthly unique visitors during the three months ended June 30, 2016, according to our internal log files. With 385 million reviews and opinions on 6.6 million places to stay, places to eat and things to do – including 1,035,000 hotels and accommodations and 815,000 vacation rentals, 4.1 million restaurants and 690,000 attractions in 135,000 destinations throughout the world - we believe we have the best content in the travel industry for research and travel planning decision-making. When combined with our hotel metasearch capabilities to compare and find the best prices; our instant booking feature, allowing users to book their hotels on all devices directly on our website; and, subsequent to their trip, the ability to submit a traveler review, TripAdvisor has become an end to end travel experience.

Growth in Mobile Phone and Other Handheld Devices. To access the internet, users are increasingly using devices other than desktop computers, including mobile phones and handheld computers such as notebooks and tablets. To address these growing user demands, we continue to extend our platform to develop mobile phone and tablet applications to deliver travel information and resources. Although the substantial majority of our mobile phone users also access and engage with our websites on personal computers and tablets where we offer display advertising, our users could decide to access our products primarily through mobile phone devices. We offer display graphic advertising on mobile phones; however, our mobile phone monetization strategies are still developing. At present mobile phone monetization is significantly less than desktop and tablet monetization. Mobile phone growth and development remains a key strategy and we will continue to invest and innovate in this growing platform to help us maintain and grow our user base, engagement and monetization over the long term.

Segments

Our reporting structure includes two reportable segments: Hotel and Non-Hotel. Our Non-Hotel reportable segment consists of three operating segments, which includes our Attractions, Restaurants and Vacation Rentals businesses. The segments are determined based on how the chief operating decision maker 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.

As discussed above, 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. For further description of our segments see Item 1 "Business", in our Annual Report on Form 10-K for the year ended December 31, 2015 and "Note 11: Segment Information" in the notes to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Employees

As of June 30, 2016, we had 3,350 employees. Of these employees, approximately 50% were based in the United States. We believe we have good relationships with our employees, including relationships with employees represented by international works councils or other similar organizations.

Seasonality

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel 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.

Critical Accounting Policies and Estimates

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

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

- It requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and
- Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

New and Recently Adopted Accounting Pronouncements

New Accounting Pronouncements Not Yet Adopted

In March 2016, the 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.

Results of Operations

Selected Financial Data

(in millions, except percentages)

| | Three months ended June 30, | | % Change 2016 vs. 2015 | Six months ended June 30, | | % Change 2016 vs. 2015 |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | |
| Revenue | $391 | $405 | (3 )% | $743 | $768 | (3 )% |
| | | | | | | |
| Costs and expenses: | | | | | | |
| Cost of revenue | 20 | 16 | 25 % | 36 | 29 | 24 % |
| Selling and marketing | 202 | 192 | 5 % | 374 | 350 | 7 % |
| Technology and content | 62 | 50 | 24 % | 123 | 99 | 24 % |
| General and administrative | 34 | 44 | (23 )% | 72 | 77 | (6 )% |
| Depreciation | 17 | 15 | 13 % | 33 | 28 | 18 % |
| Amortization of intangible assets | 8 | 9 | (11 )% | 15 | 16 | (6 )% |
| Total costs and expenses: | 343 | 326 | 5 % | 653 | 599 | 9 % |
| Operating income | 48 | 79 | (39 )% | 90 | 169 | (47 )% |
| Other income (expense): | | | | | | |
| Interest expense | (3 ) | (2 ) | 50 % | (6 ) | (4 ) | 50 % |
| Interest income and other, net | - | 5 | (100 )% | - | 3 | (100 )% |
| Total other income (expense), net | (3 ) | 3 | (200 )% | (6 ) | (1 ) | 500 % |
| Income before income taxes | 45 | 82 | (45 )% | 84 | 168 | (50 )% |
| Provision for income taxes | (11 ) | (24 ) | (54 )% | (22 ) | (47 ) | (53 )% |
| Net income | $34 | $58 | (41 )% | $62 | $121 | (49 )% |
| | | | | | | |
| Other Financial Data: | | | | | | |
| Adjusted EBITDA (1) | $95 | $123 | (23 )% | $180 | $249 | (28 )% |

(1) See “Adjusted EBITDA” discussion below for more information.

Revenue and Segment Information

In the first quarter of 2016 we began providing additional disclosure on our revenue sources within our Hotel segment, which are TripAdvisor-branded click-based and transaction revenue, TripAdvisor-branded display-based advertising and subscription revenue, and other hotel revenue. The purpose of this additional disclosure is to provide further understanding of our hotel revenue sources and allow for additional insight into the calculation of one of our key operating performance metrics, revenue per hotel shopper. In conjunction with providing these additional revenue disclosures, we will no longer provide our historically reported revenue disclosure of click-based advertising, display-based advertising, and subscription, transaction and other revenues. This change had no effect on our consolidated financial statements in any period or with the composition of our operating or reportable segments.

% Change % Change

| | Three months ended June 30, 2016 | 2015 | 2016 vs. 2015 | Six months ended June 30, 2016 | 2015 | 2016 vs. 2015 |
|---|---|---|---|---|---|---|
| Revenue by Segment: | (in millions) | | | (in millions) | | |
| Hotel | $316 | $343 | (8 )% | $619 | $663 | (7 %) |
| Non-Hotel | 75 | 62 | 21 % | 124 | 105 | 18 % |
| Total revenue | $391 | $405 | (3 )% | $743 | $768 | (3 %) |
| Adjusted EBITDA by Segment (1): | | | | | | |
| Hotel | $105 | $125 | (16 )% | $211 | $257 | (18 %) |
| Non-Hotel | $(10 ) | $(2 ) | (400 )% | $(31 ) | $(8 ) | (288 %) |
| Adjusted EBITDA Margin by Segment (2): | | | | | | |
| Hotel | 33 % | 36 % | | 34 % | 39 % | |
| Non-Hotel | (13 )% | (3 )% | | (25 )% | (8 )% | |

(1) Included in Adjusted EBITDA by Segment is a general and administrative expense allocation for each segment, which is based on the segment's percentage of our total personnel costs. See "Note 11: Segment Information," in the notes to our unaudited condensed consolidated financial statements for more information.
(2) We define "Adjusted EBITDA by Segment margin", as Adjusted EBITDA by segment as a percentage of revenue by segment.

Hotel Segment

Our Hotel segment revenue decreased by $27 million and $44 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a $36 million and $65 million decrease in TripAdvisor-branded click-based and transaction revenue, primarily due to a decline in revenue per hotel shopper of 19% during both the three and six months ended June 30, 2016, respectively, partially offset by growth of $4 million and $10 million in TripAdvisor-branded display-based advertising and subscription revenue, and $5 million and $11 million in other hotel revenue, during the three and six months ended June 30, 2016, respectively, all of which are discussed below.

Adjusted EBITDA in our Hotel segment decreased $20 million and $46 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a decrease in Hotel revenue and increased personnel and overhead costs as well as online traffic acquisition costs, offset by lower television advertising costs due to the cessation of our television advertising campaign in 2016. Our Hotel segment Adjusted EBITDA margin declined during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to an overall decrease in Hotel segment revenue, and to a lesser extent increased investment levels to support growth.

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

| | Three months ended June 30, | | % Change | Six months ended June 30, | | % Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 vs. 2015 | 2016 | 2015 | 2016 vs. 2015 |
| | (in millions) | | | (in millions) | | |
| Hotel: | | | | | | |
| TripAdvisor-branded click-based and transaction | $201 | $237 | (15 %) | $390 | $455 | (14 %) |
| TripAdvisor-branded display-based advertising and subscription | 72 | 68 | 6 % | 140 | 130 | 8 % |
| Other hotel revenue | 43 | 38 | 13 % | 89 | 78 | 14 % |
| Total Hotel revenue | $316 | $343 | (8 %) | $619 | $663 | (7 %) |

TripAdvisor-branded Click-based and Transaction Revenue

TripAdvisor-branded click-based and transaction revenue includes click-based advertising revenue (“our metasearch-auction”) from our TripAdvisor-branded websites and revenue from our transaction-based hotel instant booking feature. For the three and six months ended June 30, 2016, 64% and 63%, respectively, of our total Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. For both the three and six months ended June 30, 2015, 69% of our total Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. TripAdvisor-branded click-based and transaction revenue decreased $36 million and $65 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a decline of 19% in revenue per hotel shopper during both the three and six months ended June 30, 2016, respectively, which is explained in further detail below.

Our largest source of Hotel segment revenue is click-based advertising revenue from our TripAdvisor-branded websites, which includes links to our partners’ sites and contextually-relevant branded and related text links. Our click-based advertising partners are predominantly OTAs, and direct suppliers in the hotel, airline and cruise product categories. Click-based advertising is generally priced on a cost-per-click, or “CPC”, basis, with payments from advertisers based on the number of users who click on each type of link, or in other words a conversion of a hotel shopper to a paid click. CPC is the effective price that partners are willing to pay for a hotel shopper lead, and is determined in a competitive process that allows our partners to use our proprietary, automated bidding system to submit CPC bids to have their rates and availability listed on our site, or our metasearch-auction. When a partner submits a CPC bid, they are agreeing to pay the amount of that bid each time a user subsequently clicks on the uniform resource locator, or URL link, to the partner’s website. Bids can be submitted periodically – as often as daily– on a property-by-property basis. The size of the bid relative to other bids received is the primary factor used to determine the placement of partner links on our site, including on hotel comparison search results and on property detail pages. CPCs are generally lower in international markets than in the U.S. market, and, in addition, hotel shoppers visiting via mobile phones generally monetize at a significantly lower rate than hotel shoppers visiting via desktop or tablet.

Our transaction revenue is comprised of revenue from our hotel instant booking feature, which enables the merchant of record, generally an OTA or hotel partner, to pay a commission to TripAdvisor for a user that completes a hotel reservation on our

website. Instant booking revenue is currently recognized under two different models: the transaction model and the consumption model. Our transaction model commission revenue is recorded at the time a traveler books a hotel reservation on our site with one of our transaction partners. Our transaction partners are liable for commission payments to us upon booking and the partner assumes the cancellation risk. When a traveler makes a hotel reservation on our site with one of our consumption partners, revenue is not recorded until the traveler completes the stay as our consumption partners are liable for commission payment upon the completion of stay by the traveler. OTA and hotel partner placement, as well as comparative hotel prices available to the traveler in the booking process under both models, are determined by a bidding process within our proprietary automated bidding system, based on a number of variables including commission rates, depending on the specific hotel selected. Instant booking commissions are primarily a function of average gross booking value generated from hotel reservations and commission rates negotiated with each of our partners.

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

While we believe total traffic growth, or growth in monthly visits from unique visitors, is reflective of our overall brand growth, we also track and analyze sub-segments of our traffic and their correlation to revenue generation and utilize data regarding hotel shoppers as a key indicator of revenue growth. Hotel shoppers are visitors who view either a listing of hotels in a city or a specific hotel page. The number of hotel shoppers tends to vary based on seasonality of the travel industry and general economic conditions, as well as other factors outside of our control. Given these factors, as well as the trend towards increased usage on mobile phones and international growth, quarterly and annual hotel shopper growth is a difficult metric to forecast.

Our aggregate average monthly unique hotel shoppers on TripAdvisor-branded websites increased 3% and 6% during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, according to our log files. The increase in hotel shoppers for the three and six months ended June 30, 2016 was primarily due to growth in our online marketing channels as well as the general trend of an increasing number of hotel shoppers visiting our websites on mobile phones. While increasing the absolute number of hotel shoppers on our sites remains a top strategic priority, our ability to grow through paid traffic channels has been negatively impacted by lower revenue per hotel shopper.

The below table summarizes our revenue per hotel shopper calculation and growth rate, in aggregate, for the periods presented:

| | Three months ended June 30, 2016 (in millions) | Three months ended June 30, 2015 | % Change 2016 vs. 2015 | Six months ended June 30, 2016 (in millions) | Six months ended June 30, 2015 | % Change 2016 vs. 2015 |
|---|---|---|---|---|---|---|
| Revenue per hotel shopper: | | | | | | |
| TripAdvisor-branded click-based and transaction revenue | $201 | $237 | (15 %) | $390 | $455 | (14 %) |
| Divided by: Total average unique monthly hotel shoppers for the quarter (1) | 416 | 404 | 3 % | 827 | 780 | 6 % |
| | $0.48 | $0.59 | (19 %) | $0.47 | $0.58 | (19 %) |

(1) We regularly review our tools and methodologies to ensure our metrics, including hotel shopper calculations, are accurate. During the second quarter of 2016, we identified certain automated traffic (or bots) that was impacting these calculations and consequently removed this data from our internal log files retroactively to prior periods. The impact of this change did not affect our unaudited condensed consolidated financial statements for any period previously presented or materially impact our revenue per hotel shopper trend.

Our overall revenue per hotel shopper decreased 19% during both the three and six months ended June 30, 2016 when compared to the same periods in 2015, according to our log files. The primary drivers of this decrease are as follows: (i) the global launch of our hotel instant booking, which currently monetizes at a lower rate than click-based advertising revenue; (ii) a revenue recognition timing shift from an increasing portion of our Hotel revenue now being recognized at the time a user consumes the stay under our instant booking consumption model; (iii) a greater percentage of hotel shoppers visiting TripAdvisor websites via mobile phones, which results in lower rate of conversion to a click or a booking and therefore monetize at a significantly lower rate than hotel shoppers that visit TripAdvisor websites via desktop or tablet; (iv) the negative impact by an increasingly volatile global macro-economic environment; and (v) challenging metasearch comparatives for comparable periods in 2015.

TripAdvisor-branded Display-based Advertising and Subscription Revenue

For both the three and six months ended June 30, 2016, 23% of our Hotel segment revenue was derived from our TripAdvisor-branded display based advertising and subscription revenue, which consists of revenue from display-based advertising, subscription-based hotel advertising revenue (or Business Listings), as well as content licensing with third party websites. For both the three and six months ended June 30, 2015, 20% of our Hotel segment revenue was derived from our TripAdvisor-branded display based advertising and subscription revenue.

Our TripAdvisor-branded display-based advertising and subscription revenue increased by $4 million or 6%, and $10 million or 8%, during the three and six months ended June 30, 2016 when compared to the same periods in 2015. Display-based advertising revenue and subscription revenue both grew at comparable rates during the three and six months ended June 30, 2016. The increase in display-based advertising revenue was primarily due to an increase in impressions sold, partially offset by a slight decrease in pricing, while the increase in subscription revenue was a result of both increased pricing and sales productivity.

Other Hotel Revenue

For both the three and six months ended June 30, 2016, 14% of our Hotel segment revenue was derived from other hotel revenues. For the three and six months ended June 30, 2015, 11% and 12%, respectively, of our Hotel segment revenue was derived from other hotel revenues. Our other hotel revenue primarily includes revenue from non-TripAdvisor branded websites, including click-based advertising revenue, display-based advertising revenue and room reservations sold through these websites. Our other hotel revenue increased by $5 million and $11 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015.

Non-Hotel Segment

Our Non-Hotel segment revenue increased by $13 million or 21%, and $19 million or 18% during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily driven by increased bookings, partially offset by the continued shift to our free-to-list model in our Vacation Rentals business, where commission revenues are not recognized until time of stay.

Our Attractions business saw an increase in supply of destination activities and continued growth in our user base globally. In our Restaurants business, we saw growth in our more established markets, and additionally from expansion into new markets. In our Vacation Rentals business we continued to see an increase in property listings and number of transactions on our websites.

Adjusted EBITDA in our Non-Hotel segment decreased $8 million and $23 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015. This decrease was primarily due to increased personnel and overhead costs and also increased online traffic acquisition costs of $5 million and $10 million, respectively. The Attractions, Restaurant and Vacation Rental businesses are all at the earlier stages of their growth and business life cycle which require early investment to fund growth initiatives, and a contributing factor to this reportable segment operating at a loss.

Revenue by Geography

The following table presents our revenue by geographic region. Revenue by geography is based on the geographic location of our websites.

| | % Change | % Change |
|---|---|---|

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 vs. 2015 | 2016 | 2015 | 2016 vs. 2015 |
| | (in millions) | | | (in millions) | | |
| Revenue by geographic region: | | | | | | |
| North America (1) | $225 | $211 | 7 % | $416 | $393 | 6 % |
| EMEA (2) | 117 | 127 | (8 %) | 227 | 247 | (8 %) |
| APAC (3) | 36 | 48 | (25 %) | 73 | 90 | (19 %) |
| LATAM (4) | 13 | 19 | (32 %) | 27 | 38 | (29 %) |
| Total | $391 | $405 | (3 %) | $743 | $768 | (3 %) |

(1) United States and Canada
(2) Europe, Middle East and Africa
(3) Asia-Pacific
(4) Latin America

Revenue outside of North America, or international revenue, decreased $28 million, or 14%, and $48 million or 13%, respectively, during the three and six months ended June 30, 2016, when compared to the same periods in 2015. International revenue represented 42% and 44% of total revenue during the three and six months ended June 30, 2016, respectively, and represented 48% and 49% of total revenue during the three and six months ended June 30, 2015, respectively. Our international revenue growth rate decelerated and international revenue, as a percentage of total revenue, declined during the three and six months ended June 30, 2016 when compared to the same periods in 2015, primarily due to the overall decrease in revenue per hotel shopper, which is explained above. In addition, our international hotel shoppers generally monetize at lower revenue per hotel shopper rates than hotel shoppers in the U.S. market.

Consolidated Expenses

Cost of Revenue

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

| | Three months ended June 30, | | % Change | Six months ended June 30, | | % Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 vs. 2015 | 2016 | 2015 | 2016 vs. 2015 |
| | (in millions) | | | (in millions) | | |
| Direct costs | $15 | $12 | 25 % | $26 | $22 | 18 % |
| Personnel and overhead | 5 | 4 | 25 % | 10 | 7 | 43 % |
| Total cost of revenue | $20 | $16 | 25 % | $36 | $29 | 24 % |
| % of revenue | 5.1% | 4.0% | | 4.8% | 3.8% | |

Cost of revenue increased $4 million and $7 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to increased merchant credit card and transaction fees, and personnel costs from increased headcount needed to support business growth and customer support.

Selling and Marketing

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

| | Three months ended June 30, | | % Change | Six months ended June 30, | | % Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 vs. 2015 | 2016 | 2015 | 2016 vs. 2015 |
| | (in millions) | | | (in millions) | | |
| Direct costs | $148 | $148 | - % | $271 | $262 | 3 % |
| Personnel and overhead | 54 | 44 | 23 % | 103 | 88 | 17 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total selling and marketing | $202 | $192 | 5 % | $374 | $350 | 7 % |
| % of revenue | 51.7% | 47.4% | | 50.3% | 45.6% | |

Direct selling and marketing costs remained flat and increased $9 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to increased online traffic acquisition costs, offset by a decrease in costs related to the cessation of our television advertising campaign. We spent $19 million and $29 million on our television advertising campaign during the three and six months ended June 30, 2015, respectively, which we did not incur in the three and six months ended June 30, 2016. Personnel and overhead costs increased $10 million and $15 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to an increase in headcount needed to support business growth, including international expansion.

Technology and Content

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

| | Three months ended June 30, 2016 | 2015 | % Change 2016 vs. 2015 | Six months ended June 30, 2016 | 2015 | % Change 2016 vs. 2015 |
|---|---|---|---|---|---|---|
| | (in millions) | | | (in millions) | | |
| Personnel and overhead | $53 | $42 | 26 % | $106 | $83 | 28 % |
| Other | 9 | 8 | 13 % | 17 | 16 | 6 % |
| Total technology and content | $62 | $50 | 24 % | $123 | $99 | 24 % |
| % of revenue | 15.9% | 12.3% | | 16.6% | 12.9% | |

Technology and content costs increased $12 million and $24 million during the three and six months ended June 30, 2016, respectively, when compared to the same periods in 2015, primarily due to increased personnel costs, including a $3 million and $7 million increase in stock-based compensation, from increased headcount needed to support business growth, including international expansion and enhanced site features.

General and Administrative

General and administrative expense consists primarily of personnel and related overhead costs, including personnel engaged in executive leadership, finance, legal, and human resources, including stock-based compensation. General and administrative costs also include professional service fees and other fees including audit, legal, tax and accounting, and other costs including bad debt expense, non-income taxes and charitable contributions.

| | Three months ended June 30, 2016 | 2015 | % Change 2016 vs. 2015 | Six months ended June 30, 2016 | 2015 | % Change 2016 vs. 2015 |
|---|---|---|---|---|---|---|
| | (in millions) | | | (in millions) | | |
| Personnel and overhead | $25 | $ 29 | (14 %) | $51 | $ 53 | (4 %) |
| Professional service fees and other | 9 | 15 | (40 %) | 21 | 24 | (13 %) |
| Total general and administrative | $34 | $ 44 | (23 %) | $72 | $ 77 | (6 %) |
| % of revenue | | | | | | |