TripAdvisor, Inc.
Form 10-Q
November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

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

Commission file number: 001-35362

TRIPADVISOR, INC.

(Exact name of registrant as specified in its charter)

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

400 1st Avenue

Needham, MA 02494

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:

(781) 800-5000

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Class	Outstanding Shares at November 1, 2017
Common Stock, $0.001 par value per share	126,079,380 shares
Class B common stock, $0.001 par value per share	12,799,999 shares

TripAdvisor, Inc.

Form 10-Q

For the Quarter Ended September 30, 2017

Table of Contents

	Page
Part I—Financial Information	
Item 1. Unaudited Condensed Consolidated Financial Statements	
Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016	3
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016	4
Unaudited Condensed Consolidated Balance Sheets at September 30, 2017 and December 31, 2016	5
Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2017	6
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016	7
Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures about Market Risk	40
Item 4. Controls and Procedures	41
Part II—Other Information	
Item 1. Legal Proceedings	41
Item 1A. Risk Factors	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3. Defaults Upon Senior Securities	56
Item 4. Mine Safety Disclosures	56
Item 5. Other Information	56
Item 6. Exhibits	56
Signatures	57

2

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	$439	$421	$1,235	$1,164
Costs and expenses:				
Cost of revenue (1)	20	19	56	55
Selling and marketing (2)	247	210	683	584
Technology and content (2)	61	62	184	185
General and administrative (2)	42	38	115	110
Depreciation	19	18	57	51
Amortization of intangible assets	8	8	25	23
Total costs and expenses	397	355	1,120	1,008
Operating income	42	66	115	156
Other income (expense):				
Interest expense	(4)	(3)	(11)	(10)
Interest income and other, net	-	-	3	-
Total other income (expense), net	(4)	(3)	(8)	(10)
Income before income taxes	38	63	107	146
Provision for income taxes	(13)	(8)	(42)	(27)
Net income	$25	$55	$65	$119
Earnings per share attributable to common stockholders (Note 4):				
Basic	$0.18	$0.38	$0.46	$0.82
Diluted	$0.18	$0.37	$0.46	$0.81
Weighted average common shares outstanding (Note 4):				
Basic	139	146	141	146
Diluted	139	147	142	147
(1) Excludes amortization as follows:				
Amortization of acquired technology included in amortization of intangible assets	$2	$2	$6	$5
Amortization of website development costs included in depreciation	14	12	39	33
	$16	$14	$45	$38

(2) Includes stock-based compensation expense as follows:

Selling and marketing	$ 5	$ 5	$ 16	$ 15
Technology and content	$ 12	$ 11	$ 31	$ 30
General and administrative	$ 9	$ 6	$ 25	$ 19

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	$ 25	$ 55	$ 65	$ 119
Other comprehensive income (loss):				
Foreign currency translation adjustments (1)	10	3	30	4
Total other comprehensive income (loss)	10	3	30	4
Comprehensive income	$ 35	$ 58	$ 95	$ 123

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

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (Note 5)	$ 750	$ 612
Short-term marketable securities (Note 5)	13	118
Accounts receivable, net of allowance for doubtful accounts of $15 and $9, respectively	254	189
Prepaid expenses and other current assets	25	31
Total current assets	1,042	950
Long-term marketable securities (Note 5)	6	16
Property and equipment, net of accumulated depreciation of $166 and $111, respectively	266	260
Intangible assets, net of accumulated amortization of $107 and $80, respectively	150	167
Goodwill	756	736
Deferred income taxes, net	58	42
Other long-term assets	70	67
TOTAL ASSETS	$ 2,348	$ 2,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15	$ 14
Deferred merchant payables	203	128
Deferred revenue	65	64
Current portion of debt (Note 6)	7	80
Taxes payable	4	10
Accrued expenses and other current liabilities	128	127
Total current liabilities	422	423
Long-term debt (Note 6)	265	91
Deferred income taxes, net	16	12
Other long-term liabilities	228	210
Total Liabilities	931	736
Commitments and contingencies (Note 8)		
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: 135,510,995 and 134,706,467, respectively		
Shares outstanding: 126,036,505 and 131,310,980, 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	901	831
Retained earnings	1,010	945
Accumulated other comprehensive income (loss)	(47)	(77)
Treasury stock-common stock, at cost, 9,474,490 and 3,395,487 shares, respectively	(447)	(197)
Total Stockholders' Equity	1,417	1,502
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,348	$ 2,238

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

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(in millions, except number of shares)

	Common stock Shares	Common stock Amount	Class B common stock Shares	Class B common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock Shares	Treasury Stock Amount	Total
Balance as of December 31, 2016	134,706,467	$ -	12,799,999	$ -	$ 831	$ 945	$ (77)	(3,395,487)	$ (197)	$ 1,502
Net income						65				65
Other comprehensive income							30			30
Issuance of common stock related to exercises of options and vesting of RSUs	804,528	-			3					3
Repurchase of common stock								(6,079,003)	(250)	(250)
Withholding taxes on net share settlements of equity awards					(15)					(15)
Stock-based compensation					82					82
Balance as of September 30, 2017	135,510,995	$ -	12,799,999	$ -	$ 901	$ 1,010	$ (47)	(9,474,490)	$ (447)	$ 1,417

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

6

TRIPADVISOR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine months ended September 30,	
	2017	2016
Operating activities:		
Net income	$ 65	$ 119
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	57	51
Amortization of intangible assets	25	23
Stock-based compensation expense	72	64
Deferred tax (benefit) expense	(12)	(14)
Other, net	6	4
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, prepaid expenses and other assets	(58)	(40)
Accounts payable, accrued expenses and other liabilities	(2)	2
Deferred merchant payables	62	42
Income tax receivables/payables, net	5	19
Deferred revenue	-	6
Net cash provided by operating activities	220	276
Investing activities:		
Capital expenditures, including internal-use software and website development	(50)	(57)
Acquisitions, net of cash acquired	-	(23)
Purchases of marketable securities	(16)	(145)
Sales of marketable securities	105	62
Maturities of marketable securities	25	22
Other investing activities, net	-	1
Net cash provided by (used in) investing activities	64	(140)
Financing activities:		
Repurchase of common stock	(250)	(21)
Proceeds from Chinese credit facilities	-	2
Proceeds from 2015 credit facility, net of financing costs	413	10
Payments to 2015 credit facility	(241)	(190)
Proceeds from 2016 credit facility, net of financing costs	-	73
Payments to 2016 credit facility	(73)	-
Proceeds from exercise of stock options	3	6
Payment of withholding taxes on net share settlements of equity awards	(15)	(13)
Net cash used in financing activities	(163)	(133)

Effect of exchange rate changes on cash and cash equivalents	17	(6)
Net increase (decrease) in cash and cash equivalents	138	(3)
Cash and cash equivalents at beginning of period	612	614
Cash and cash equivalents at end of period	$ 750	$ 611
Supplemental disclosure of non-cash investing and financing activities:		
Stock-based compensation capitalized with internal-use software and website development costs	$ 10	$ 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 platform aggregates reviews and opinions of members about destinations, accommodations, activities and attractions, and restaurants throughout the world so that our users have access to trusted advice wherever their trips take them. Our platform helps users plan their trips with our unique user-generated content and enables users to compare real-time pricing and availability so that they can book hotels, flights, cruises, vacation rentals, activities and attractions, and restaurant reservations.

Our flagship brand is TripAdvisor. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 48 markets and 28 languages worldwide. In addition to the flagship TripAdvisor brand, we manage and operate the following 20 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: www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.com, www.cruisecritic.com, www.familyvacationcritic.com, www.flipkey.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, and www.dimmi.com.au), www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.housetrip.com, www.jetsetter.com, www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.vacationhomerentals.com, and www.viator.com.

We have two reportable segments: Hotel and Non-Hotel. We derive a majority of our revenue from our Hotel segment, through the sale of advertising, primarily through click-based advertising, as well as from commission-based transactions via our instant booking feature, display-based advertising, subscription-based hotel advertising, hotel room reservations sold through our websites, and from content licensing. Our Non-Hotel segment consists of our Attractions, Restaurants, and Vacation Rentals businesses. We derive revenue from our Non-Hotel segment from subscription and commission-based transaction offerings from our Vacation Rentals business; destination activities primarily sold through Viator; and online restaurant reservations booked primarily through thefork.com. For further information on our segments see “Note 11: Segment Information,” in these notes to our unaudited condensed consolidated financial statements.

Basis of Presentation

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

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

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, all adjustments necessary for a fair presentation of the results of the interim period have been included. These adjustments consist of normal recurring items. Additionally, certain prior period amounts have been reclassified for comparability with the current period presentation. 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, 2016, previously filed with the SEC. The unaudited condensed consolidated balance sheet as of December 31, 2016 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, or revenue and profits, tend to be seasonal as well. As a result, our financial performance tends to be seasonally highest in the second and third quarters of a year, as it is a key period for leisure travel research and trip-taking, which includes the seasonal peak in traveler hotel and vacation rental stays, and tours and attractions taken, 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 May 2017, the Financial Accounting Standard Board ("FASB") issued new accounting guidance that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications which will reduce diversity in practice. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if the award's fair value (or calculated value or intrinsic value, if those measurement methods are used), the award's vesting conditions, and the award's classification as an equity or liability instrument are the same immediately before and after the change. The guidance also states that an entity is not required to estimate the value of the award immediately before and after the change if the change does not affect any of the inputs to the model used to value the award. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and will be applied prospectively to awards modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued or made available for issuance. We anticipate adopting this new guidance on January 1, 2018. Upon adoption, we believe the new guidance will likely result in fewer changes to the terms of an award being accounted for as modifications.

In March 2017, the FASB issued new accounting guidance which shortens the amortization period for the premium paid on certain purchased callable debt securities to the earliest call date instead of the bond's maturity. The amendments do not require an accounting change for securities held at a discount; instead, the discount continues to be amortized to maturity. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We anticipate adopting this new guidance on January 1, 2019 and based on the composition of our current investment portfolio we do not expect the new guidance will have a material impact on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued new accounting guidance to clarify the definition of a business and provide additional guidance to assist entities with evaluating whether transactions should be accounted for as asset acquisitions (or asset disposals) or business combinations (or disposals of a business). Under this new guidance, an entity first determines whether substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this criterion is met, the transaction should be accounted for as an asset acquisition as opposed to a business combination. This distinction is important because the accounting for an asset acquisition significantly differs from the accounting for a business combination. This new guidance eliminates the requirement to evaluate whether a market participant could replace missing elements (e.g. inputs or processes), narrows the definition of outputs and requires that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. This new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted including adoption in any interim or annual periods in which the financial statements have not been issued or made available for issuance. The new guidance will be applied prospectively to any transactions occurring within the period of adoption. We anticipate adopting this new guidance on January 1, 2018. Upon adoption, the new guidance will impact how we assess acquisitions (or disposals) of assets or businesses.

In January 2017, the FASB issued new accounting guidance to simplify the accounting for goodwill impairment. The new guidance removes Step two of the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill, which requires a hypothetical purchase price allocation, with the carrying amount of that reporting unit’s goodwill. Under this new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests occurring after January 1, 2017. The new guidance will be applied prospectively. We are currently evaluating this guidance, including the date we will adopt this guidance and what the impact upon adoption will be, if any.

In November 2016, the FASB issued new accounting guidance on the classification and presentation of restricted cash in the statement of cash flows to address the diversity in practice. This new guidance requires entities to show changes in cash, cash equivalents and restricted cash on a combined basis in the statement of cash flows. In addition, this accounting guidance requires a reconciliation of the total cash, cash equivalent and restricted cash in the statement of cash flows to the related captions in the balance sheet if cash, cash equivalents and restricted cash are presented in more than one line item in the balance sheet. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. Upon adoption, an entity may apply the new guidance only retrospectively to all prior periods presented in the financial statements. We anticipate adopting this new guidance on January 1, 2018 and currently do not expect this new guidance will have a material impact on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued new accounting guidance on income tax accounting associated with intra-entity transfers of assets other than inventory. This accounting update, which is part of the FASB's simplification initiative, is intended to reduce diversity in practice and the complexity of tax accounting, particularly for those transfers involving intellectual property. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual reporting period for which interim or annual financial statements have not been issued. Upon adoption, an entity may apply the new guidance only on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We anticipate adopting this new guidance on January 1, 2018 and do not expect this new guidance will have a material impact on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued new accounting guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new guidance specifically addresses the following cash flow topics in an effort to reduce diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Upon adoption, an entity may apply the new guidance only retrospectively to all prior periods presented in the financial statements. We anticipate adopting this new guidance on January 1, 2018 and we do not expect this new guidance will have a material impact on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued new accounting guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable, and available-for-sale debt securities. For financial assets measured at amortized cost, this new guidance requires an entity to: (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected; (2) recognize this allowance and changes in the allowance during subsequent periods through net income; and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses. For available-for-sale debt securities, this new guidance made several targeted amendments to the existing other-than-temporary impairment model, including: (1) requiring disclosure of the allowance for credit losses; (2) allowing reversals of the previously recognized credit losses until the entity has the intent to sell, is more-likely-than-not required to sell the securities or the maturity of the securities; (3) limiting impairment to the difference between the amortized cost basis and fair value; and (4) not allowing entities to consider the length of time that fair value has been less than amortized cost as a factor in evaluating whether a credit loss exists. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted, including interim periods within those fiscal years beginning after December 15, 2018. We are currently considering our timing of adoption and in the process of evaluating the impact of adopting this guidance on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued new guidance related to accounting for leases. The new standard requires the recognition of assets (right-of-use-assets) and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. The new guidance will classify leases as either finance or operating leases, with classification determining the presentation of expenses and cash flows on our consolidated financial statements. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. For leases with a term of 12 months or less, a lessee can make an accounting policy election by class of underlying asset to not recognize an asset and corresponding liability. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases and amounts previously recognized in accordance with the business combinations guidance for leases. We will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases which include, among other things, the computation and disclosure of our weighted average remaining lease term and discount rate, cash paid for amounts included in the measurement of lease liabilities, and supplemental non-cash information on lease liabilities arising from obtaining the right-of-use assets. These disclosures are intended to provide supplemental information to the amounts recorded in the financial statements so that users can better understand the nature of an entity’s leasing activities. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted, which will require the recognition and measurement of leases at the beginning of the earliest comparative period presented in the financial statements using a modified retrospective approach. We anticipate adopting this new guidance on January 1, 2019.

To date, we have made measurable progress toward evaluating the new lease guidance and have begun updating accounting policies, accounting position memos, and evaluating our existing population of contracts to ensure all contracts that meet the definition of a lease contract under the new standard upon adoption are identified. We are also in the process of implementing additional lease software to support our accounting and reporting process under the new lease accounting guidance, including the new quantitative and qualitative financial disclosure requirements. In addition, we are evaluating the impact of the system implementation on our internal controls. We will continue to provide updates of our assessment of the effect, that this new lease guidance will have on our consolidated financial statements, disclosures, systems and related controls, and will disclose any material effects, if any, when known.

In January 2016, the FASB issued a new accounting update which amends the guidance on the classification and measurement of financial instruments. Although the accounting update retains many current requirements, it significantly revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The accounting update also amends certain fair value disclosures of financial instruments and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity’s evaluation of their other deferred tax assets. The update requires entities to carry all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies at fair value, with fair value changes recognized through net income. This requirement does not apply to investments that qualify for equity method accounting, investments that result in consolidation of the investee or investments in which the entity has elected the practicability exception to fair value measurement. Under current GAAP, available-for-sale investments in equity securities, with a readily determinable fair value, are re-measured to fair value each reporting period with changes in fair value recognized in accumulated other comprehensive income (loss). However, under the new guidance, fair value adjustments will be recognized through net income. For equity securities currently accounted for under the cost method (as they do not have a readily determinable fair value), the new guidance requires those equity investments to be carried at fair value with changes in net income, unless an entity elects to measure those investments, at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company intends to elect this measurement alternative for equity securities without a readily determinable fair value. Additionally, this accounting update will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. In addition, this accounting update eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is currently required to be disclosed for financial instruments measured at amortized cost in the balance sheet. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. Upon adoption, an entity will apply the new guidance on a modified retrospective basis, which is to record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted, with two exceptions. The amendments related to equity investments without readily determinable fair values (including disclosure requirements) will be effective prospectively. The requirement to use the exit price notion to measure the fair value of financial instruments for disclosure purposes will also be applied prospectively. We anticipate adopting this new guidance on January 1, 2018 and based on the composition of our current investments, we do not expect the adoption of this guidance will have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers which will replace numerous requirements in GAAP, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations and, in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The two permitted transition methods under this new accounting guidance are the full retrospective method, in which case the guidance would be applied to each prior reporting period presented and the cumulative effect of applying the guidance would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the guidance would be recognized at the date of initial application. We will adopt this new guidance on January 1, 2018 under the modified retrospective method, which means that revenues for 2016 and 2017 will be reported on a historical basis and revenues for 2018 will be reported on the new basis and also disclosed on the historical basis.

To date, we have made significant progress toward completing our evaluation of the potential changes from adopting the new standard on our future financial reporting and disclosures. We have established a cross-functional implementation team from across our organization and have made significant progress in the review of our contracts portfolio and our current accounting policies and practices to identify potential differences that could result from applying the requirements of the new standard to our revenue contracts. To date, we have evaluated the significant majority of our revenue streams and based on the Company's preliminary analysis; we expect the revenue standard will change the timing of revenue recognition for our instant booking revenue recorded under the consumption model. Upon adoption, this revenue will be recognized at the transaction booking date for a hotel accommodation rather than upon completion of the stay by the traveler, which is how it is currently recorded. The Company does not currently expect this timing change to have a material impact to its financial statements, either on an annual or quarterly basis. In addition to the changes in our instant booking revenue under the consumption model, the new guidance will result in other immaterial changes in the timing of certain other revenue streams. We currently do not expect any major reengineering required to our accounting systems or to our internal controls related to the above accounting changes or related to the additional disclosure requirements required by the standard. However, while we have made significant progress, and are in our implementation phase of this project, we are still evaluating less material portions of our revenue, and, in addition, our costs incurred to obtain or fulfill a contract. We will continue to update our assessment of the effect that the new revenue guidance will have on our consolidated financial statements, disclosures and related controls, and will disclose any material effects, if any, when known.

Recently Adopted Accounting Pronouncements

In October 2016, the FASB issued new accounting guidance which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control within the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. We adopted this new guidance on January 1, 2017, on a retrospective basis, with no impact on our consolidated financial statements and related disclosures.

There have been no material changes to our significant accounting policies since December 31, 2016. For additional information about our 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, 2016.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Selling and marketing	$ 5	$ 5	$ 16	$ 15
Technology and content	12	11	31	30
General and administrative	9	6	25	19
Total stock-based compensation	26	22	72	64
Income tax benefit from stock-based compensation	(9)	(8)	(27)	(23)
Total stock-based compensation, net of tax effect	$ 17	$ 14	$ 45	$ 41

During the three and nine months ended September 30, 2017, we capitalized $3 million and $10 million, respectively, of stock-based compensation expense as internal-use software and website development costs. During the three and nine months ended September 30, 2016, we capitalized $3 million and $9 million, respectively, of stock-based compensation expense as internal-use software and website development costs.

Stock-Based Award Activity and Valuation

2017 Stock Option Activity

During the nine months ended September 30, 2017, we have issued 1,529,127 service-based non-qualified stock options under the Company's Amended and Restated 2011 Stock and Annual Incentive Plan (the "2011 Incentive Plan"). Generally our stock options have a term of ten years from the date of grant and generally vest equally over a four-year requisite service period.

The following table presents a summary of our stock option activity during the nine months ended September 30, 2017:

	Options Outstanding (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at December 31, 2016	5,818	$ 57.60		
Granted	1,529	42.81		
Exercised (1)	(488)	29.49		

Cancelled or expired	(572	)	68.82		
Options outstanding at September 30, 2017	6,287		$ 55.16	6.4	$ 7
Exercisable as of September 30, 2017	3,337		$ 52.51	4.7	$ 7
Vested and expected to vest after September 30, 2017 (2)	6,287		$ 55.16	6.4	$ 7

(1) Inclusive of 288,751 of options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the required amount of 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 Incentive Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

(2) The Company accounts for forfeitures as they occur, rather than estimate expected forfeitures as allowed under GAAP and therefore do not include a forfeiture rate in our vested and expected to vest calculation unless necessary for a performance condition award.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on The NASDAQ Global Select Market as of September 30, 2017 was $40.53. The total intrinsic value of stock options exercised was $8 million and $23 million, for the nine months ended September 30, 2017 and 2016, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Risk free interest rate	1.84 %	1.15 %	1.90 %	1.20 %
Expected term (in years)	5.32	5.17	5.35	4.85
Expected volatility	41.31 %	42.68 %	41.52 %	41.83 %
Expected dividend yield	— %	— %	— %	— %

The weighted-average grant date fair value of options granted was $15.49 and $17.16 for the three and nine months ended September 30, 2017, respectively. The weighted-average grant date fair value of options granted was $24.97 and $22.95 for the three and nine months ended September 30, 2016, respectively. The total fair value of stock options vested was $39 million and $27 million for the nine months ended September 30, 2017 and 2016, respectively. Cash received from stock option exercises was $3 million and $6 million for the nine months ended September 30, 2017 and 2016, respectively.

On June 5, 2017, the Section 16 Committee of our Board of Directors approved an amendment to the nonqualified stock option award (the "Option") granted on August 28, 2013 to Stephen Kaufer, the Company's President and Chief Executive Officer. The amendment provides that the Option will expire on the tenth anniversary, instead of the seventh anniversary, of the grant date. Vesting conditions under the Option were not affected by this amendment. As a result of the modification, incremental fair value of $5 million will be recognized to stock-based compensation expense on a straight-line basis over the remaining vesting term, which is through August 2018.

2017 RSU Activity

During the nine months ended September 30, 2017, we issued 4,241,561 RSUs under the 2011 Incentive Plan for which the fair value was measured based on the quoted price of our common stock on the date of grant. These RSUs generally vest over a four-year requisite service period.

The following table presents a summary of our RSU activity during the nine months ended September 30, 2017:

	RSUs Outstanding (in thousands)	Weighted Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of December 31, 2016	2,856	$ 69.35	
Granted	4,241	42.65	
Vested and released (1)	(868)	67.89	
Cancelled	(641)	55.02	

Unvested RSUs outstanding as of September 30, 2017	5,588	$ 50.84	$ 226
Expected to vest after September 30, 2017 (2)	5,588	$ 50.84	$ 226

(1) Inclusive of 251,082 RSUs withheld due to net share settlement to satisfy required employee tax withholding requirements. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Incentive Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

(2) The Company accounts for forfeitures as they occur, rather than estimate expected forfeitures as allowed under GAAP and therefore do not include a forfeiture rate in our expected to vest calculation unless necessary for a performance condition award, respectively.

Total current income tax benefits associated with the exercise or settlement of TripAdvisor stock-based awards held by our employees were $1 million and $17 million for the three and nine months ended September 30, 2017, respectively. Total current income tax benefits associated with the exercise or settlement of TripAdvisor stock-based awards held by our employees was $2 million and $18 million for the three and nine months ended September 30, 2016.

Unrecognized Stock-Based Compensation

A summary of our remaining unrecognized stock-based compensation expense and the weighted average remaining amortization period at September 30, 2017 related to our non-vested stock options and RSU awards is presented below:

	Stock Options	RSUs
Unrecognized compensation expense	$ 49	$ 229
Weighted average period remaining (in years)	2.4	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 common shares repurchased during the reporting period.

Diluted Earnings Per Share Attributable to Common Stockholders

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

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise of outstanding equity awards and the average unrecognized compensation cost during the period. The treasury stock method assumes that a company uses the proceeds from the exercise of an equity award to repurchase common stock at the average market price for the reporting period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$25	$55	$65	$119
Denominator:				

Weighted average shares used to compute Basic EPS	138,779	145,678	140,961	145,618
Weighted average effect of dilutive securities:				
Stock options	193	1,135	312	1,229
RSUs	416	404	408	314
Weighted average shares used to compute Diluted EPS	139,388	147,217	141,681	147,161
Basic EPS	$0.18	$0.38	$0.46	$0.82
Diluted EPS	$0.18	$0.37	$0.46	$0.81

15

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

	Three months ended September 30,		Nine months ended September 30,	
	2017(1)	2016(2)	2017(1)	2016(2)
Stock options	4,643	3,065	4,626	2,997
RSUs	1,756	691	1,940	753
Total	6,399	3,756	6,566	3,750

(1) These totals do not include 125,000 performance based options representing the right to acquire the equivalent number of shares of potential 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 125,000 performance based options and 12,799 performance based RSUs representing 137,799 shares of potential 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 fair value hierarchy and significant investment category recorded as cash and cash equivalents or short and long-term marketable securities as of the dates presented (in millions):

	September 30, 2017						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 747	$ -	$ -	$ 747	$ 747	$ -	$ -
Level 1:							
Money market funds	2	-	-	2	2	-	-
Level 2:							
U.S. agency securities	4	-	-	4	1	2	1
U.S. treasury securities	1	-	-	1	-	1	-
Certificates of deposit	2	-	-	2	-	1	1
Corporate debt securities	13	-	-	13	-	9	4
Subtotal	20	-	-	20	1	13	6
Total	$ 769	$ -	$ -	$ 769	$ 750	$ 13	$ 6

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

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 September 30, 2017 and December 31, 2016, respectively.

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels:

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

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

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

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 nine months ended September 30, 2017 and 2016. Realized gains and losses on the sale of securities were 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 September 30, 2017.

Derivative Financial Instruments

In certain circumstances, we enter into foreign currency forward exchange contracts, or 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 forward contracts, which have been entered into during both the three and nine months ended September 30, 2017 have not been designated as hedges and had current maturities of less than 90 days. Consequently, any gain or loss resulting from the change in fair value has been recognized in our unaudited condensed consolidated statement of operations, which were not material for both the three and nine months ended September 30, 2017. The net gain or loss related to our forward contracts for the three months ended September 30, 2016 was not material and we recorded a net gain of $1 million for the nine months ended September 30, 2016 related to our settled and outstanding forward contracts in “Interest income and other, net” on our unaudited condensed consolidated statements of operations.

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

	September 30, 2017	December 31, 2016
	(in millions)	
Foreign exchange-forward contracts (1), (2)	$ -	$ 6

(1) Derivative contracts address foreign currency exchange fluctuations for the Euro versus the U.S. Dollar. The Company had no outstanding derivative contracts as of September 30, 2017 and two outstanding derivative contracts as of December 31, 2016.

(2) The fair value of our derivatives was not material as of December 31, 2016. 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.

The Company does not have any recurring assets or liabilities measured at fair value that would be considered Level 3 at September 30, 2017 and December 31, 2016.

Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include accounts receivable, accounts payable, deferred merchant payables, short-term debt, accrued and other current liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments as reported on our unaudited condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016, respectively. The carrying value of the long-term debt from our 2015 Credit Facility bears interest at a variable rate and therefore is also considered to approximate fair value.

We also hold investments in equity securities of privately-held companies with carrying values of $12 million and $14 million at September 30, 2017 and December 31, 2016, respectively. These investments are accounted for under the cost method and included in "Other long-term assets" in the Company's unaudited condensed consolidated balance sheet. Under the cost method, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions, and additional investments. The Company evaluates its investments on a quarterly basis to determine if any indicators of other-than-temporary impairment exist. The Company recognized a loss of $2 million related to an investment in one of these privately-held companies during the three months ended September 30, 2017 in “Interest income and other, net” on our unaudited condensed consolidated statements of operations.

NOTE 6: DEBT

The Company's outstanding debt consisted of the following as of the dates presented:

	September 30, 2017	December 31, 2016
	(in millions)	
Short-Term Debt:		
Chinese Credit Facilities	$ 7	$ 7
2016 Credit Facility	-	73
Total Short-Term Debt	$ 7	$ 80
Long-Term Debt:		
2015 Credit Facility	$ 265	$ 91
Total Long-Term Debt	$ 265	$ 91

2015 Credit Facility

In June 2015, we entered into a five year credit agreement with a group of lenders which, among other things, provided for a $1 billion unsecured revolving credit facility (the "2015 Credit Facility"). On May 12, 2017, the 2015 Credit Facility was amended to, among other things, (i) increase the aggregate amount of revolving loan commitments available from $1.0 billion to $1.2 billion; and (ii) extend the maturity date of the 2015 Credit Facility from June 26, 2020 to May 12, 2022 (the "First Amendment"). Borrowings under the 2015 Credit Facility generally bear interest, at the Company's option, at a rate per annum equal to either (i) the Eurocurrency Borrowing rate, or the adjusted LIBO rate for the interest period in effect for such borrowing; plus an applicable margin ranging from 1.25% to 2.00% ("Eurocurrency Spread"), based on the Company's leverage ratio; or (ii) the Alternate Base Rate ("ABR") Borrowing, which is the greatest of (a) the Prime Rate in effect on such day, (b) the New York Fed Bank Rate in effect on such day plus 1/2 of 1.00% per annum and (c) the Adjusted LIBO Rate (or LIBO rate multiplied by the Statutory Reserve Rate) for an interest period of one month plus 1.00%; in addition to an applicable margin ranging from 0.25% to 1.00% ("ABR Spread"), based on the Company's leverage ratio. The Company may borrow from the revolving credit facility in U.S dollars, Euros and British pound sterling.

During the nine months ended September 30, 2017, the Company borrowed an additional $415 million and repaid $241 million of our outstanding borrowings under the 2015 Credit Facility. These net borrowings during the year were primarily used to repurchase shares of our outstanding common stock under the Company's repurchase program, which is described in "Note 9: Stockholders Equity". As of September 30, 2017, based on the Company's leverage ratio, our borrowings bear interest at LIBO rate; plus an applicable margin of 1.25%, or the Eurocurrency Spread. The Company is currently borrowing under a one-month interest rate period or a weighted average rate of 2.50% per annum as of September 30, 2017, 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, at an applicable rate ranging from 0.15% to 0.30%, on the daily unused portion of the revolving credit facility for each fiscal quarter and additional fees in connection with the issuance of letters of credit. As of September 30, 2017, our unused revolver capacity is subject to a commitment fee of 0.15%, given the Company's leverage ratio. The 2015 Credit Facility includes $15 million of borrowing capacity available for letters of credit and $40 million for Swing Line borrowings on same-day notice. As of September 30, 2017, we had issued $3 million of outstanding letters of credit under the 2015 Credit Facility. We recorded total interest expense and commitment fees on our 2015 Credit Facility of $2 million and $4 million for the three and nine months ended September 30, 2017, respectively, and $1 million and $3 million for the three and nine months ended September 30, 2016, respectively, to “Interest expense” on our unaudited condensed consolidated statements of operations. All unpaid interest and commitment fee amounts as of September 30, 2017 and December 31, 2016, respectively, were not material.

In connection with the First Amendment, we incurred additional lender fees and debt financing costs totaling $2 million, which were capitalized as deferred financing costs and recorded to “Other long-term assets” on the unaudited condensed consolidated balance sheet. As of September 30, 2017, the Company has $3 million remaining in deferred financing costs in connection with the 2015 Credit Facility. These costs will be amortized over the remaining term using the effective interest rate method and recorded to “Interest expense” on our unaudited condensed consolidated statements of operations. The resulting write down of previous deferred financing costs as a result of the First Amendment was not material.

There is no specific repayment date prior to the maturity date for borrowings under this credit agreement. We may voluntarily repay any outstanding borrowing under the 2015 Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to Eurocurrency loans. Certain wholly-owned domestic subsidiaries of the Company have agreed to guarantee the Company’s obligations under the 2015 Credit Facility. The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under the 2015 Credit Facility. Additionally, the 2015 Credit Facility includes a subjective acceleration clause, which could be triggered by the lenders if a representation, warranty or statement made by the Company proves to be incorrect in any material respect, which in turn would permit the lenders to accelerate repayment of any outstanding obligations. The Company believes that the likelihood of the lender exercising this right is remote and, as such, we classify borrowings under this facility as long-term debt. As of September 30, 2017, we were in compliance with all of our debt covenants.

2016 Credit Facility

In September 2016, we entered into an uncommitted facility agreement, which provides for a $73 million unsecured revolving credit facility (the “2016 Credit Facility”) with no specific expiration date. The 2016 Credit Facility is available at the lender’s discretion and can be canceled at any time. Repayment terms for borrowings under the 2016 Credit Facility are generally one to six month periods or such other periods as the parties may mutually agree and bear interest at LIBOR plus 112.5 basis points. The Company may borrow from the 2016 Credit Facility in U.S dollars only and we may voluntarily repay any outstanding borrowing at any time without premium or penalty. Any overdue amounts under or in respect of the 2016 Credit Facility not paid when due shall bear interest in the case of principal at the applicable interest rate plus 1.50% per annum. In addition, TripAdvisor, LLC, a wholly-owned domestic subsidiary of the Company, has agreed to guarantee the Company’s obligations under the 2016 Credit Facility. There are no specific financial or incurrence covenants.

The Company repaid all outstanding borrowings during the first three months of 2017 and, as of September 30, 2017, we had no outstanding borrowings under the 2016 Credit Facility. During the three and nine months ended September 30, 2017, total interest recorded with respect to our 2016 Credit Facility to “Interest expense” on our unaudited condensed consolidated statements of operations was not material.

Chinese Credit Facilities

In addition to our borrowings under the 2015 Credit Facility and 2016 Credit Facility, we maintain two credit facilities in China (jointly, the “Chinese Credit Facilities”).

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. Borrowings under our Chinese Credit Facility—BOA generally bear interest at a rate based on People’s Bank of China benchmark, including certain adjustments which may be made in accordance with the market condition at the time of borrowing. As of September 30, 2017, there were no outstanding borrowings under our Chinese Credit Facility—BOA.

We are also parties to a RMB 70,000,000 (approximately $10 million), one-year revolving credit facility with J.P. Morgan Chase Bank (“Chinese Credit Facility—JPM”). Borrowings under our Chinese Credit Facility—JPM generally bear interest at a rate based on People’s Bank of China benchmark, including certain adjustments which may be made in accordance with the market condition at the time of borrowing. As of September 30, 2017 and December 31, 2016, respectively, we had $7 million of outstanding borrowings from the Chinese Credit Facility – JPM at a weighted average rate of 4.35%.

NOTE 7: INCOME TAXES

Each interim period is considered an integral part of the annual period and, accordingly, we measure our income 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 nine months ended September 30, 2017 was 34.2% and 39.3%, respectively. Our effective tax rate for the three and nine months ended September 30, 2016 was 12.7% and 18.5%, respectively. For both the three and nine months ended September 30, 2017, the effective tax rate is greater than the federal statutory rate primarily due to valuation allowances on losses in jurisdictions outside the United States, recognition of stock compensation shortfalls, and a change in the relative mix of pretax income among jurisdictions. These same drivers also resulted in an increase in the effective tax rate for the three and nine months ended September 30, 2017, when compared to same periods in 2016.

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 September 30, 2017, accrued interest was $8 million, net of federal and state benefit, and no penalties have been accrued.

By virtue of previously filed consolidated income tax returns filed with Expedia, we are currently under an IRS audit for the 2009, 2010 and 2011 tax years, and have various ongoing state income tax audits. We are separately under examination by the IRS for the 2012 and 2013 tax years and under an employment tax audit by the IRS for the 2013 and 2014 tax years. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. These examinations may lead to proposed or ordinary course adjustments to our taxes. We are no longer subject to tax examinations by tax authorities for years prior to 2009. As of September 30, 2017, no material assessments have resulted, except as noted below regarding our 2009 and 2010 IRS audit with Expedia.

In January 2017, we received Notices of Proposed Adjustment from the IRS for the 2009 and 2010 tax years. These proposed adjustments are related to certain transfer pricing arrangements with our foreign subsidiaries, and would result in an increase to our worldwide income tax expense in an estimated range totaling $10 million to $14 million for those specific years, after consideration of competent authority relief, exclusive of interest and penalties. During the quarter ended June 30, 2017, we filed a request for Mutual Agreement Procedure consideration under Article 26 of the United States / United Kingdom Income Tax Convention and Rev. Proc. 2015-40, 2015-35 I.R.B. 236. 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. As such, we disagree with the proposed adjustments and intend to defend our position through applicable administrative and, if necessary, judicial remedies. In addition to the risk of additional tax for 2009 and 2010 transactions, if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we could be subject to significant additional tax liabilities.

In July 2015, the United States Tax Court (the “Court”) issued an opinion favorable to Altera Corporation (“Altera”) with respect to Altera’s litigation with the IRS. This opinion was submitted as a final decision under Tax Court Rule 155 during December 2015. The litigation relates to the treatment of stock-based compensation expense in an inter-company cost-sharing arrangement with Altera’s foreign subsidiary. In its opinion, the Court accepted Altera’s position of excluding stock based compensation from its inter-company cost-sharing arrangement. The IRS appealed the Court decision on February 19, 2016. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation in intercompany cost-sharing arrangements. The Company recorded an income tax benefit, based on the Court’s acceptance of Altera’s position, of $3 million and $5 million during the three and nine months ended September 30, 2016, respectively, and an additional income tax benefit of $2 million and $5 million during the three and nine months ended September 30, 2017, respectively. The Company will continue to monitor this matter and related potential impacts to its consolidated financial statements.

NOTE 8: COMMITMENTS AND CONTINGENCIES

There have been no material changes to our commitments and contingencies since December 31, 2016. Refer to “Note 13: 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, 2016.

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

As described above, 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 continue to accumulate positive 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 9: STOCKHOLDERS' EQUITY

On January 25, 2017, our Board of Directors authorized the repurchase of $250 million of our shares of common stock under a new share repurchase program. Our Board of Directors authorized and directed management, working with the Executive Committee of our Board of Directors to affect the share repurchase program in compliance with applicable legal requirements. As of June 30, 2017, we had repurchased a total of 6,079,003 shares of the Company's outstanding common stock at an average share price of $41.13, or $250 million in the aggregate, and completed this share repurchase program.

NOTE 10: RELATED PARTY TRANSACTIONS

We consider Liberty TripAdvisor Holdings, Inc. ("LTRIP") a related party. As of September 30, 2017, LTRIP beneficially owned approximately 18.2 million shares of our common stock and 12.8 million shares of our Class B common stock, which shares constitute 14.4% 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 22.3% 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 57.5% of our voting power.

We had no related party transactions with LTRIP during the nine months ended September 30, 2017 and 2016.

NOTE 11: SEGMENT INFORMATION

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

Hotel

Our Hotel segment includes revenue generated from the following sources:

- TripAdvisor-branded Click-based and Transaction Revenue. Our largest source of Hotel segment revenue is generated from click-based advertising on TripAdvisor-branded websites, which is primarily comprised of contextually-relevant booking links to our partners' sites. Our click-based advertising partners are predominantly online travel agencies, or OTAs, and direct suppliers in the hotel product category. Click-based advertising is generally priced on a cost-per-click, or "CPC", basis, with payments from advertisers determined by the number of users who click on a link multiplied by the price that partner is willing to pay for that click, or hotel shopper lead. CPC rates are determined in a dynamic, competitive auction process, or metasearch auction, that enables our partners to use our proprietary, automated bidding system to submit CPC bids to have their hotel rates and availability listed on our site. Transaction revenue is generated from our instant booking feature, which enables the merchant of record, generally an OTA or hotel partner, to pay a commission to TripAdvisor for a user that completes a hotel reservation on our website.

- TripAdvisor-branded Display-based Advertising and Subscription Revenue. Advertising partners can promote their brands in a contextually-relevant manner through a variety of display-based advertising placements on our websites. Our display-based advertising clients are predominately direct suppliers of hotels, airlines and cruises, as well as destination marketing organizations. We also accept display-based advertising from OTAs and attractions, as well as advertisers from non-travel categories. Display-based advertising is sold predominantly on a cost per thousand impressions, or CPM, basis. Subscription-based advertising is offered to hotels, B&Bs and other specialty lodging properties. This advertising product is sold for a flat fee and enables subscribers to list, for a contracted period of time, a website URL, email address and phone number on our TripAdvisor-branded websites, as well as to post special offers for travelers.
- Other Hotel Revenue. Our other hotel revenue primarily includes revenue from non-TripAdvisor branded websites, such as bookingbuddy.com, cruisecritic.com, and onetime.com, which includes click-based advertising revenue, display-based

advertising revenue, hotel room reservations sold through the websites, and advertising revenue from making cruise reservations available for price comparison and booking.

Non-Hotel

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

Attractions. We provide information and services for users to research and book activities and attractions in popular travel destinations through our dedicated Attractions business, Viator, as well as on our TripAdvisor website and applications. We generate revenue by charging the operators a commission for each transaction we facilitate through our online reservation systems. In addition to its consumer-direct business, Viator also powers activity and attractions booking capabilities to its affiliate partners, including some of the world's top airlines, hotel chains and online and offline travel agencies. Viator's bookable inventory is available on www.viator.com as well as TripAdvisor-branded websites and mobile applications.

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

Vacation Rentals. We provide information and services for users to research and book vacation and short-term rental properties, including full home rentals, condominiums, villas, beach rentals, cabins and cottages. The Vacation Rentals business generates revenue primarily by offering individual property owners and property managers the ability to list their properties on our websites and mobile applications through a free-to-list, commission-based option and, to a lesser extent, by an annual subscription-based fee structure. These properties are listed on a number of websites, including www.flipkey.com, www.holidaylettings.co.uk, www.housetrip.com, www.niumba.com, and www.vacationhomerentals.com, as well as on our TripAdvisor-branded websites.

Our operating segments are determined based on how our chief operating decision maker manages our business, regularly assesses information and evaluates performance for operating decision-making purposes, including allocation of resources. The chief operating decision maker for the Company is our Chief Executive Officer.

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 nine months ended September 30, 2017 and 2016, and include a reconciliation of Adjusted EBITDA to Net Income. We record depreciation of property and equipment, including amortization of internal-use software and website development, amortization of intangible assets, stock-based compensation and other stock-settled obligations, other income (expense), net, other non-recurring expenses and income, net, and income taxes, which are excluded from segment operating performance, in corporate and unallocated. In addition, we do not report our assets, capital expenditures and related depreciation expense by segment as our chief operating decision maker does not use this information to evaluate operating segments. Accordingly, we do not regularly provide such information by segment to our chief operating decision maker. Intersegment revenue is not material and, in addition, already eliminated in the information by segment provided 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 September 30, 2017			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	$312	$ 127	$ -	$439
Adjusted EBITDA (1)	51	44	-	95
Depreciation			(19)	(19)
Amortization of intangible assets			(8)	(8)
Stock-based compensation			(26)	(26)
Operating income (loss)				42
Other expense, net				(4)
Income before income taxes				38
Provision for income taxes				(13)
Net income				$25

	Three months ended September 30, 2016			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	$320	$ 101	$ -	$421
Adjusted EBITDA (2)	99	15	-	114
Depreciation			(18)	(18)
Amortization of intangible assets			(8)	(8)
Stock-based compensation			(22)	(22)
Operating income (loss)				66
Other expense, net				(3)
Income before income taxes				63
Provision for income taxes				(8)
Net income				$55

	Nine months ended September 30, 2017			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	$952	$ 283	$ -	$1,235
Adjusted EBITDA (1)	223	46	-	269
Depreciation			(57)	(57)
Amortization of intangible assets			(25)	(25)
Stock-based compensation			(72)	(72)
Operating income (loss)				115
Other expense, net				(8)
Income before income taxes				107

Provision for income taxes	(42)
Net income	$65

	Nine months ended September 30, 2016			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	$939	$ 225	$ -	$1,164
Adjusted EBITDA (2)	309	(15)	-	294
Depreciation			(51)	(51)
Amortization of intangible assets			(23)	(23)
Stock-based compensation			(64)	(64)
Operating income (loss)				156
Other expense, net				(10)
Income before income taxes				146
Provision for income taxes				(27)
Net income				$119

(1) Includes allocated general and administrative expenses in our Hotel segment of $22 million and $60 million for the three and nine months ended September 30, 2017, respectively, and in our Non-Hotel segment of $11 million and $30 million for the same periods.

(2) Includes allocated general and administrative expenses in our Hotel

segment of $21 million and $63 million for the three and nine months ended September 30, 2016, respectively, and in our Non-Hotel segment of $10 million and $28 million for the same periods.

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, 2016.

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 this Quarterly Report on Form 10-Q for the nine months ended September 30, 2017, 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 its mission is to help people around the world plan, book and experience the perfect trip. We accomplish this by, among other things, aggregating millions of members’ reviews and opinions about destinations, accommodations, activities and attractions, and restaurants worldwide, thereby creating the foundation for a unique platform that enables users to research and plan their travel experiences. Our platform also enables users to compare real-time pricing and availability for these experiences as well as to book hotels, flights, cruises, vacation rentals, tours, activities and attractions, and restaurants, either on a TripAdvisor site or mobile app, or on the site or app of one of our travel partner sites.

Our TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the TripAdvisor website in 48 markets and 28 languages worldwide. Our TripAdvisor-branded websites reached 455 million average monthly unique visitors during the quarter ended September 30, 2017, according to our internal log files. We currently feature over 570 million reviews and opinions on 7.3 million places to stay, places to eat and things to do – including 1.2 million hotels and accommodations and 780,000 vacation rentals, 4.4 million restaurants and 875,000 activities and attractions worldwide. In addition to the flagship TripAdvisor brand, we now manage and operate the following 20 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: www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.com, www.cruisecritic.com, www.familyvacationcritic.com, www.flipkey.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, and www.dimmi.com.au), www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.housetrip.com, www.jetsetter.com, www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.vacationhomerentals.com, and www.viator.com.

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.

Executive Summary and Trends

As the largest online travel platform, we believe we are an attractive marketing channel for advertisers—including hotel chains, independent hoteliers, online travel agencies, or OTAs, 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. We offer users the ability to do real-time price comparison through our metasearch product, as well as the ability to book hotels, flights, cruises, vacation rentals, tours, activities and attractions, and restaurants either directly on our website or mobile app through our instant booking product or on one of our travel partner sites. The key drivers of our financial results are described below, including a summary of our growth strategy, current trends affecting our business, and our segment information.

Our Growth Strategy

We leverage significant investments in technology, operations, brand-building, and relationships with advertisers and other partners to expand our business and enhance our global competitive position. We continue to focus on the following areas to grow our business:

- Delivering a Great User Experience. Over the past few years, we have made significant product enhancements aimed at delivering an end-to-end user experience – from discovery, to researching, price shopping and booking – on the TripAdvisor platform. These enhancements include introducing hotel price comparison tools in 2013, enabling users to book accommodations on our platforms as well as expanding our product offerings to include attractions and restaurants. More recently, we launched a newly redesigned website that offers a simplified, more engaging shopping experience on TripAdvisor. Over time, we believe that a continued focus on delivering more robust products to our users will result in more repeat usage on our platform, higher conversion to transactions for our partners and greater monetization for our business. Our innovative “Speed Wins” culture supports quickly identifying what users want as they conduct their travel research and booking and bringing product enhancements to our users quickly. This includes growing high-quality content, offering best room price availability on hotel listings, building a large marketplace of bookable supply for in-destination activities, and providing users timely email and mobile push notifications, helping them to find and book great travel options at the lowest prices.
- Increasing High-Quality Traffic to Our Platform. TripAdvisor is a globally-recognized travel brand and, with 455 million average monthly unique visitors, according to our internal log files, this represents the largest online audience of any travel brand. We seek to amplify our global brand and products through various online and offline marketing channels in order to increase the number of users who navigate to our site either directly, also known as domain

direct traffic, or from other marketing channels. We utilize a number of offline advertising channels, including permanent branding campaigns such as TripAdvisor branded campaigns (awards, certificates, stickers and badges, for example) and television advertising. We also leverage a number of online advertising channels, including: customer relationship management, or CRM; email campaigns; social networks; search engine marketing, or SEM, which promotes our websites by increasing their visibility in search engine results through paid placements, contextual advertising and paid inclusions; and retargeting, which targets consumers based on their search behavior. In addition, for sources of user traffic, we also rely on search engine optimization, or SEO, which promotes websites with relevant and current content that rank well in "organic," or unpaid search engine results, as well as referrals from partners whose sites contain links to TripAdvisor content. In order to continue growing unique visitors to our websites and enhancing the quality of those visits, we intend to continue to invest in, some or all of, the aforementioned channels, as well as any new channels that we may identify in the future.

- Enhancing Our Mobile Phone Offerings. Innovating and improving our mobile phone products are key priorities since mobile phone devices continue to proliferate and consumers increasingly conduct more internet searches and commerce on these devices. During the quarter ended September 30, 2017, over half of our average monthly unique visitors came from mobile phone, growing 30% year-over-year, according to our internal log files. We anticipate that the growth rate in mobile phone monthly unique visitors will continue to exceed the growth rate of our overall monthly unique visitors, resulting in an increased proportion of users continuing to use their mobile phone devices to access the full range of services available on our websites and applications. We are investing significant resources to improve the features, functionality, engagement, and commercialization of our travel products on our mobile websites and applications.
- Growing Our Attractions, Restaurants and Vacation Rentals Businesses. A significant percentage of our 455 million average monthly unique users visit our websites to review content related to the 875,000 activities and attractions, 4.4 million restaurants, and 780,000 vacation rentals on our platform, and we believe that continuing to grow the number of listings and bookable products, especially in our in-destination Attractions and Restaurants businesses, will enable TripAdvisor to capitalize on a unique opportunity to delight users in more moments during more trips. We believe continuing to invest in improving the product experience, especially on mobile phone, enhancing our supply network and growing demand via online marketing channels will generate increased user demand, repeat usage, increased travel bookings and more revenue on our platform.

Current Trends in Our Business

Hotel Segment

During 2017, we have continued to improve our hotel shopping experience, which included the launch of a redesigned TripAdvisor website and mobile applications. In addition to making the site cleaner and faster over the past year, another core product focus for us has been to make it easier for our users to find the lowest hotel prices on TripAdvisor. We have and will continue to seek new ways to provide a better end-to-end hotel shopping experience, by improving room-level content, optimizing the room selection process and helping users book with our hotelier and OTA partners. On the supply side, we continue to on-board more partners that have unique brand, supply or room pricing to provide consumers a more comprehensive selection of accommodations in an effort to achieve higher repeat usage and conversion of hotel shoppers to bookings and higher cost-per-click rates on our platform.

The market to help users find and book hotels online is large and growing. It also remains highly competitive. We compete with other travel companies and search engines for hotel shoppers, or the users we try to bring to view TripAdvisor hotel pages. Over time, increased competition has caused hotel shoppers visiting our websites and applications from paid online marketing channels, such as SEM, to grow faster than traffic from unpaid online marketing channels, such as SEO. Hotel shoppers from unpaid online marketing channels, such as users that navigate directly to our homepage or applications through branded search queries on search engines, are of the highest value to our business. Following the launch of our new hotel shopping experience, we launched a brand advertising campaign, or television campaign, in June 2017 aimed at increasing usage of TripAdvisor as a place to find and book the best hotels at the lowest prices. We also continue to leverage a number of other marketing channels, both paid and unpaid, to achieve this objective, including online efforts such as social media and CRM, as well as offline efforts such as TripAdvisor-branded advertising campaigns. We will continue to optimize our mix of marketing investments based on the relative growth opportunity, the expected returns and the competitive environment in which we operate. We believe optimizing our marketing mix to include brand advertising will help TripAdvisor establish a more durable, long-lasting direct relationship with users shopping for hotels, with a greater financial return than we would be able to achieve from online paid marketing. However, this marketing strategy comes with a near-term trade-off, as online paid marketing may better enable us to generate a short-term hotel shopper and click-based and transaction revenue, whereas we expect our television advertising campaign to generate such returns over a longer timeframe. Over time, we believe that, as more users visit TripAdvisor to compare hotel prices before they book, we will be able to drive revenue, marketing efficiency and profit growth.

A key objective is to grow the number of hotel shoppers on our platform. In the third quarter of 2017, our average monthly unique hotel shoppers increased 7%, when compared to the same period in 2016, according to our internal log files. The increase is primarily due to the success in our paid online marketing strategy, as well as the general trend of an increasing number of hotel shoppers visiting our websites and apps on mobile phones, partially offset by marketing spend tradeoffs resulting from increased brand advertising investment in our television campaign, as discussed above.

During the third quarter of 2017, hotel shoppers that visited our websites and apps on mobile phones continued to grow significantly faster than traffic from desktop and tablet devices. Mobile phones currently generate significantly lower revenue per hotel shopper compared to desktop and tablet devices. We believe that this monetization difference is due to a number of factors, including the reduced ability to achieve marketing attribution on the mobile phone for facilitating traffic to partner websites and applications; our limited advertising opportunities on smaller screen devices; our historic positioning as a place to read reviews; and general consumer purchasing patterns on mobile phones resulting in lower booking intent, lower conversion to a booking, lower cost-per-click, and lower average gross booking value. As a result, the growth in hotel shoppers on mobile phones has remained a headwind against our revenue per hotel shopper and our TripAdvisor-branded click-based and transaction revenue. In addition, the general trend of increasing traffic to our websites and apps on mobile phones reduces our ability to grow TripAdvisor-branded display-based advertising revenue, as we believe prioritizing and preserving a cleaner user experience over increasing advertising units on smaller screen devices is the most appropriate way to engage more users on our mobile phone products. We continue to align product and marketing in mobile and invest in product development in order to improve the mobile user experience as well as to improve mobile phone traffic acquisition to increase our user base. We believe that, over the long-term, these efforts will result in increased usage and engagement, conversion of hotel shoppers to bookings for our hotel advertising partners and higher monetization rates for us.

Non-Hotel Segment

Our ongoing product efforts to deliver an end-to-end user experience extend to our Non-Hotel segment, which includes our Attractions, Restaurants, and Vacation Rentals businesses. Our key growth strategies have been to grow users, improve our products and grow bookable supply. We continued to deliver on those objectives in the third quarter of 2017, as monthly unique users to these pages on our websites and applications continued to grow rapidly, we enhanced our product experience on all devices, and we grew the number of suppliers and bookable products on our platform. Notably, we have been able to increasingly leverage strong user growth on the TripAdvisor-branded platform to drive increased bookings, particularly in our Attractions business. Additionally, our Attractions and Restaurants businesses have both experienced increased engagement on mobile phones.

Continued successful execution of our key growth strategies and increased marketing and operating efficiencies primarily contributed to this segment's revenue growth and profit growth in the third quarter of 2017, as compared to the same period in 2016. Our ongoing strategic objectives are to continue to enhance the user experience, drive increased user engagement and grow traffic, bookable products, and bookings in these businesses.

Segments

Refer to "Note 11: Segment Information" in the notes to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for financial information and additional descriptive information related to our segments.

Employees

As of September 30, 2017, we had 3,236 employees. Of these employees, 51% were based in the United States. We believe that 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 our financial performance, or revenue and profits, tend to be seasonal as well. As a result, our financial performance tends to be highest in the second and third quarters of a year, as it is a key period for leisure travel research and trip-taking, which includes the seasonal peak in traveler hotel and vacation rental stays, and tours and attractions taken, 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, 2016.

Significant Accounting Policies and New Accounting Pronouncements

See "Note 2: Significant Accounting Policies" in the notes to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for an overview of new accounting pronouncements that we have adopted or that we plan to adopt that have had or may have an impact on our financial statements.

There have been no material changes to our significant accounting policies since December 31, 2016. For additional information about our 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, 2016.

Results of Operations

Selected Financial Data

(in millions, except percentages)

	Three months ended September 30, 2017	2016	% Change 2017 vs. 2016		Nine months ended September 30, 2017	2016	% Change 2017 vs. 2016	
Revenue	$ 439	$ 421	4	%	$ 1,235	$ 1,164	6	%
Costs and expenses:								
Cost of revenue	20	19	5	%	56	55	2	%
Selling and marketing	247	210	18	%	683	584	17	%
Technology and content	61	62	(2	)%	184	185	(1	)%
General and administrative	42	38	11	%	115	110	5	%
Depreciation	19	18	6	%	57	51	12	%
Amortization of intangible assets	8	8	0	%	25	23	9	%
Total costs and expenses:	397	355	12	%	1,120	1,008	11	%
Operating income	42	66	(36	)%	115	156	(26	)%
Other income (expense):								

Interest expense	(4)	(3)	33 %	(11)	(10)	10 %
Interest income and other, net	-	-	0 %	3	-	100 %
Total other income (expense), net	(4)	(3)	33 %	(8)	(10)	(20)%
Income before income taxes	38	63	(40)%	107	146	(27)%
Provision for income taxes	(13)	(8)	63 %	(42)	(27)	56 %
Net income	$ 25	$ 55	(55)%	$ 65	$ 119	(45)%
Other Financial Data:						
Adjusted EBITDA (1)	$ 95	$ 114	(17)%	$ 269	$ 294	(9)%

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

Revenue and Segment Information

	Three months ended September 30, 2017	2016	% Change 2017 vs. 2016	Nine months ended September 30, 2017	2016	% Change 2017 vs. 2016
Revenue by Segment:	(in millions)			(in millions)		
Hotel	$ 312	$ 320	(3)%	$ 952	$ 939	1 %
Non-Hotel	127	101	26 %	283	225	26 %
Total revenue	$ 439	$ 421	4 %	$ 1,235	$ 1,164	6 %
Adjusted EBITDA by Segment (1):						
Hotel	$ 51	$ 99	(48)%	$ 223	$ 309	(28)%
Non-Hotel	44	15	193 %	46	(15)	407 %
Total Adjusted EBITDA	$ 95	$ 114	(17)%	$ 269	$ 294	(9)%
Adjusted EBITDA Margin by Segment (2):						
Hotel	16 %	31 %		23 %	33 %	
Non-Hotel	35 %	15 %		16 %	(7)%	

(1) Included in Adjusted EBITDA is a general and administrative expense allocation for each segment, which is based on the segment’s percentage of our total personnel costs, excluding stock-based compensation. See “Note 11: Segment Information” in the notes to our unaudited condensed consolidated financial statements for more

information.
(2) We define "Adjusted EBITDA Margin by Segment", as Adjusted EBITDA by segment divided by revenue by segment.

Hotel Segment

Our Hotel segment revenue decreased by $8 million during the three months ended September 30, 2017, when compared to the same period in 2016, primarily due to a decrease of $11 million in TripAdvisor-branded click-based and transaction revenue during the three months ended September 30, 2017, partially offset by an increase of $3 million in TripAdvisor-branded display-based advertising and subscription revenue, all of which are discussed below. Our Hotel segment revenue increased by $13 million during the nine months ended September 30, 2017, when compared to the same period in 2016, primarily due to an increase of $23 million in TripAdvisor-branded click-based and transaction revenue during the nine months ended September 30, 2017, which was primarily offset by a decrease of $11 million in other hotel revenue during the nine months ended September 30, 2017, all of which are discussed below.

Adjusted EBITDA and Adjusted EBITDA margin in our Hotel segment decreased by $48 million and decreased to 16%, during the three months ended September 30, 2017, respectively, when compared to the same period in 2016, primarily due to costs of our brand advertising campaign, or television campaign, which launched in June 2017. Adjusted EBITDA and Adjusted EBITDA margin in our Hotel segment decreased by $86 million and decreased to 23%, during the nine months ended September 30, 2017, respectively, when compared to the same period in 2016, primarily due to costs related to our television campaign, and also due to increased SEM and other online traffic acquisition costs during the first six months of 2017. During the three months ended September 30, 2017, our SEM and other online traffic costs were essentially flat, when compared to the same period in 2016, as we reduced our spending in online marketing channels and increased our spending in connection with our television campaign during the third quarter of 2017.

The following is a detailed table showing the revenue sources within our Hotel segment:

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	2017	2016	2017 vs. 2016	2017	2016	2017 vs. 2016
	(in millions)			(in millions)		
Hotel:						
TripAdvisor-branded click-based and transaction	$ 195	$ 206	(5)%	$ 619	$ 596	4 %
TripAdvisor-branded display-based advertising and subscription	76	73	4 %	215	214	0 %
Other hotel revenue	41	41	0 %	118	129	(9)%
Total Hotel revenue	$ 312	$ 320	(3)%	$ 952	$ 939	1 %

TripAdvisor-branded Click-based and Transaction Revenue

TripAdvisor-branded click-based and transaction revenue includes cost-per-click-based advertising revenue from our TripAdvisor-branded websites as well as transaction-based revenue from our hotel instant booking feature. For the three and nine months ended September 30, 2017, 63% and 65%, respectively, of our total Hotel segment revenue came from our TripAdvisor-branded click-based and transaction revenue. For the three and nine months ended September 30, 2016, 64% and 63%, respectively, of our total Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. TripAdvisor-branded click-based and transaction revenue during the three months ended September 30, 2017 decreased $11 million, when compared to the same period in 2016, primarily due to a decrease of 11% in revenue per hotel shopper, which was partially offset by an increase of 7% in average monthly unique hotel shoppers during the three months ended September 30, 2017, which is explained below. TripAdvisor-branded click-based and transaction revenue during the nine months ended September 30, 2017 increased $23 million, when compared to the same period in 2016, primarily due to an increase of 9% in average monthly unique hotel shoppers during the nine months ended September 30, 2017, which was partially offset by a decrease of 4% in revenue per hotel shopper, which is explained below.

Our largest source of Hotel segment revenue is click-based advertising revenue from our TripAdvisor-branded websites, which include links to our partners' sites and contextually-relevant branded and related text links. Click-based advertising is generated primarily through our metasearch auction, a description of which follows. Our click-based advertising partners are predominantly OTAs and hoteliers. 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, the conversion of a hotel shopper to a paid click. CPC is the price that a partner is willing to pay us for a hotel shopper lead and is determined in a competitive process that enables our partners to use our proprietary, automated bidding system to submit CPC bids to have their rates and availability listed on our site. 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 link to the partner's website. Bids can be submitted periodically – as often as daily– on a property-by-property basis. Primary factors used to determine the placement of partner links on our site include, but are not limited to, room night price, the size of the bid relative to other bids, and other variables. CPCs are generally lower in markets outside the U.S. market, and hotel shoppers visiting via mobile phones currently monetize at a significantly lower rate than hotel shoppers visiting via desktop or tablet.

Our Hotel segment transaction-based 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. Under the consumption model, which currently represents the majority of our instant booking revenue, commission revenue is not recorded until such time as the traveler completes their stay, at which time our consumption partner is liable to us for commission payment. Under the transaction model commission revenue is recorded at the time a traveler books a hotel reservation on our site, as our transaction partner is liable for commission payments to us upon booking and the partner assumes the cancellation risk. OTA and hotel partner placement, as well as comparative hotel prices available to the traveler in the booking process under both models, is determined by a bidding process within our proprietary automated bidding system, that takes into account a number of variables, primarily hotel room prices, but also including other factors, such as conversion rates and commission rates, depending on the specific hotel selected. Instant booking commissions are primarily a function of average gross booking value generated from hotel reservations, cancellation rates experienced, and commission rates negotiated with each of our partners.

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

While we believe that 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 one of the key indicators of revenue growth. Hotel shoppers are visitors who view either a listing of hotels in a city or on 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 expansion, quarterly and annual hotel shopper growth is a difficult metric to forecast.

The below table summarizes our revenue per hotel shopper calculation and growth rate, in aggregate, for the periods presented (in millions, except calculated revenue per hotel shopper and percentages):

Three months ended September 30,	% Change	Nine months ended September 30,	% Change