



**2016 Annual Report
and
Notice of 2017 Annual Meeting and
Proxy Statement**

April 2017

Dear Shareholders,

Our tagline “Know Better. Book Better. Go Better.” may be new, but our mission hasn’t changed: we want to help users around the globe plan and book the perfect trip. 2016 was an important transition year in pursuit of this mission. Throughout the year, we made significant investments in product improvements and supply growth as we continued to follow our North Star of creating the best user experience in travel. Well-loved by millions of travelers as the best place to research and plan a trip, TripAdvisor now enables travelers to compare hotel prices from more than 200 hotel booking sites to find the lowest prices on their ideal hotel, and then allows them to easily book their hotel stay either through one of our partner sites or directly on the TripAdvisor site with instant booking. And as part of our ever-expanding marketplace with the largest selection of attractions and restaurants, travelers can always find the best places to eat and things to do.

As previewed in last year’s letter, the hotel instant booking global rollout induced significant revenue headwinds in 2016, muting revenue growth and significantly impacting near-term profitability. Consolidated revenues, GAAP net income and Adjusted EBITDA were down year-on-year by 1%, 39%, and 24%, respectively. While such volatility was largely expected, we saw a dampened recovery in the back-half of the year, due in part to a challenging travel backdrop and elevated competitive landscape. Additionally, we were perhaps too optimistic that our hotel instant booking product feature on its own would increase awareness of TripAdvisor as a great place to book. However, 2016 was also a year of progress as we continued to round out our consumer offerings in pursuit of a greater share of the \$1.3 trillion dollar global travel market opportunity.

Addressing Long-term Growth Opportunities

User network effects have remained strong, as our content grew nearly 50% in 2016 and recently eclipsed 500 million trusted reviews and opinions. The TripAdvisor community grew as well, increasing 14% in 2016 and reaching nearly 390 million monthly unique users per month during the peak summer travel season. Whether backpacking through Europe, exploring the wonders of Southeast Asia, or planning a weekend away with the family, TripAdvisor remains the global leader in researching and planning the best places to travel, near and far. And with nearly half of our monthly unique users coming to our sites and apps on the phone, TripAdvisor remains the travel companion of choice, helping travelers make the most of their trip.

A strong global brand, valuable content and robust user community growth continues to define TripAdvisor’s increasing influence on travel commerce. In fact, studies show TripAdvisor influences nearly half of global online hotel reservations. We believe, however, that we receive credit for only a tiny fraction of the hotel transactions we help drive for our partners, let alone the billions of dollars of revenue we help drive to businesses across our Non-Hotel products of Attractions, Restaurants and Vacation Rentals. While it is still early days, the seamless, end-to-end experience we now deliver across our major travel products has already started to help extend the TripAdvisor brand beyond the world’s largest and most well-known travel-planning site. We are pleased with our progress and know there is a lot more work to be done.

Looking Ahead to 2017 . . . and Beyond

Throughout early 2017, we have been streamlining our new hotel shopping experience and making it easier to navigate, with a particular focus on helping users find the best available hotel room prices. Complementing our product work, we are focused on leveraging a suite of marketing channels to raise awareness of TripAdvisor’s ability to help users save time and money when planning and booking a trip. In the first half of 2017, as we anniversary the dilutive impacts of the instant booking rollout, we are better able to re-invest dollars in



know better ● book better ● go better

performance-based marketing as a way to introduce as many users as we can to our improved end-to-end hotel shopping experience. We also see this as a unique opportunity to leverage brand marketing to get our message out. This may include a potential return to television advertising, which would enable us to reach a broader travel audience and could help educate consumers about the benefits of using TripAdvisor not only for research and planning, but also use TripAdvisor when the consumer is in booking mode.

We are also very excited by the sizeable monetization opportunities building in our Non-Hotel segment – which includes our Attractions, Restaurants and Vacation Rentals businesses. Non-Hotel revenue grew 27% in 2016, and its earnings power has been masked by significant investments in product improvements and bookable supply growth over the past two years. We view these businesses as hidden gems, and given the attractiveness of the long-term growth opportunity ahead, we believe that reinvesting profit for market share gains and revenue growth is most appropriate in the near-term.

This focus on the long-term is consistent with how we have operated the business throughout our history. As travelers increasingly associate the TripAdvisor brand with price shopping and booking, in addition to research and planning, we believe we can drive improved profitability and revenue growth. We believe this strategy, combined with profit margin improvement in our Non-Hotel businesses, will enable us to meaningfully improve our marketing efficiency, drive sustained revenue growth and regain profit levels we achieved in prior years.

Some Thoughts on Capital Allocation

We operate in an attractive marketplace and focus our efforts on long-term growth objectives. We continuously evaluate opportunities where we can allocate investment dollars to earn the greatest returns. In addition to the organic investments we have made and will continue to make in our business, we also seek returns through strategic acquisitions, some of which bring more talented technical resources into the fold, some that augment our product capabilities, and others that help expand our geographic footprint.

Additionally, the reduction in our share price enabled us to invest in ourselves, as we were able to dedicate \$105 million to repurchase our common stock during 2016. Having reached the \$250 million limit of our share repurchase program, earlier this year our Board of Directors approved another \$250 million of share repurchase capacity, giving us another tool to increase per-share value for long-term shareholders.

In closing, 2016 was an important year of progress and learning. We remain confident that we are on the right path towards creating the best user experience in travel. I would like to thank TripAdvisor's users, partners, employees, and shareholders for their continued support.

Happy Travels,

A handwritten signature in black ink that reads "Stephen Kaufer". The signature is fluid and cursive, with the first name "Stephen" and last name "Kaufer" clearly legible.

Stephen Kaufer
Co-founder, President and Chief Executive Officer
TripAdvisor, Inc.



2016 Annual Report on Form 10-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 001-35362

TRIPADVISOR, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0743202
(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: Common Stock, \$0.001 par value	Name of each exchange on which registered: The NASDAQ Stock Market LLC
---	---

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$7,344,191,894 based on the closing price on The NASDAQ Global Select Market on such date. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant are assumed to be affiliates of the registrant.

Class	Outstanding Shares at February 10, 2017
Common Stock, \$0.001 par value per share	131,359,879 shares
Class B Common Stock, \$0.001 par value per share	12,799,999 shares

Documents Incorporated by Reference

The registrant intends to file a proxy statement pursuant to Regulation 14A not later than 120 days after the close of the fiscal year ended December 31, 2016. Portions of such proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

	<u>Page</u>
PART I.....	2
Item 1. Business	2
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	27
Item 2. Properties	27
Item 3. Legal Proceedings.....	27
Item 4. Mine Safety Disclosures	28
PART II	29
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	29
Item 6. Selected Financial Data.....	32
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	34
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	66
Item 8. Financial Statements and Supplementary Data.....	69
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	120
Item 9A. Controls and Procedures	120
Item 9B. Other Information	122
PART III	122
Item 10. Directors, Executive Officers and Corporate Governance	122
Item 11. Executive Compensation	122
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	122
Item 13. Certain Relationships and Related Transactions, and Director Independence	122
Item 14. Principal Accounting Fees and Services.....	122
PART IV	123
Item 15. Exhibits; Financial Statement Schedules	123
SIGNATURES	124

We refer to TripAdvisor, Inc. and our wholly-owned subsidiaries as “TripAdvisor,” “the Company,” “us,” “we” and “our” in this Annual Report on Form 10-K.

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The following words, when used, are intended to identify forward-looking statements: “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “result” “should,” “will,” and similar expressions which do not relate solely to historical matters. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management’s beliefs and on assumptions made by, and information currently available to, management. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements are more fully described in Part I. Item 1A. “Risk Factors”. Moreover, we operate in a rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise.

Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the U.S. Securities and Exchange Commission, or the SEC, and to other materials we may furnish to the public from time to time through Current Reports on Form 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements.

PART I

Item 1. Business

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 travelers' 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, on either a TripAdvisor site or app, or a travel partner site or app.

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 nearly 390 million average monthly unique visitors in our seasonal peak during the year ended December 31, 2016, according to our internal log files. We currently feature approximately 465 million reviews and opinions on 7 million places to stay, places to eat and things to do – including 1,060,000 hotels and accommodations and 835,000 vacation rentals, 4.3 million restaurants and 760,000 activities and attractions worldwide.

In addition to the flagship TripAdvisor brand, we manage and operate the following 23 other travel media brands, connected by the common goal of providing users the most comprehensive travel-planning and trip-taking resources in the travel industry: www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.com, www.cruisecritic.com, www.familyvacationcritic.com, www.flipkey.com, www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.housetrip.com, www.independenttraveler.com, www.jetsetter.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, www.dimmi.com.au, and www.en.couverts.nl), www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.travelpod.com, www.tripbod.com, www.vacationhomerentals.com, and www.viator.com.

Our Business Model

Our platforms connect users wishing to plan and book the best travel experiences with providers of travel accommodations and travel services worldwide. We manage our business in two reportable segments: Hotel and Non-Hotel. We derive the majority of our revenue from our Hotel segment.

Our Hotel business accounted for 80%, 85%, and 91%, of our Company's consolidated revenue in the years ended December 31, 2016, 2015 and 2014, respectively, and includes the following revenue sources:

- **Click-Based advertising 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 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.
- **Display-Based and subscription-based advertising 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 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 smartertravel.com, independenttraveler.com, and bookingbuddy.com, which includes click-based advertising revenue, display-based advertising revenue, hotel room reservations sold through these websites, and advertising revenue from making cruise reservations available for price comparison and booking.

A significant percentage of our users are not hotel shoppers and visit TripAdvisor sites without navigating to pages that contain a listing of hotels in a particular city or a specific hotel’s page. These users contribute to our Non-Hotel segment revenue, which accounted for 20%, 15%, and 9% of our consolidated revenue for the years ended December 31, 2016, 2015 and 2014, respectively, and consists of the following businesses, or operating segments:

- **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. 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 on TripAdvisor-branded websites and mobile applications.
- **Restaurants.** Through our restaurant reservations business The Fork we provide information and services for users to research and book restaurants. The Fork is an online restaurant booking platform operating on a number of sites (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, www.dimmi.com.au, and www.en.couverts.nl), with a network of restaurant partners primarily across Europe and Australia. The Fork generates revenue by charging our restaurant partners a fee for each restaurant guest, or seated diner, that we facilitate through our online reservation systems. The Fork also provides flexible online booking and a premium data and analytics tool, for which the restaurant owner pays a subscription fee. The Fork’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 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, an annual subscription-based fee structure. These properties are listed on a number of platforms, 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 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.** In 2016, in addition to completing the global instant booking rollout to all users on all devices worldwide, we also made it easier for users to find the best room prices on our site, whether offered through hotel metasearch or instant booking. We believe our continued progress in creating end-to-end travel solutions on our platform will result in better user experiences, and ultimately drive higher conversion to transactions for our partners and higher revenue per hotel shopper for our hotel business. Our innovative culture supports bringing product enhancements to market at speed. In doing so, we believe that we can continue to improve the user experience and engagement by growing, among other things, high-quality content, best room price availability on hotel

listings, in-destination bookable supply, and real-time email and push notifications, thereby also enhancing our competitive positioning.

- ***Increasing Traffic to Our Platform.*** We seek to amplify our global brand and products through various online and offline performance-based 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 have leveraged, at different points in time, a number of offline advertising channels, including permanent branding campaigns such as TripAdvisor-branded travel awards, certificates, stickers and badges and television advertising. We also leverage a number of online advertising channels, including: customer relationship management email campaigns, or “CRM”; social networks; “SEM”, which promotes 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 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, badges or widgets. In order to continue growing unique visitors to our websites and enhancing the quality of those visits, we intend 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 Offerings.*** Innovating and improving our mobile products is a key priority as mobile devices continue to proliferate and consumers increasingly conduct more internet searches and commerce on these devices. During the year ended December 31, 2016, nearly half of our average monthly unique visitors came from mobile phone, growing 29% year-over-year, according to our log files. We anticipate that the growth rate in mobile 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 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 Attractions, Restaurants and Vacation Rentals Businesses.*** A significant percentage of our users come to our websites for content on 760,000 activities and attractions, 4.3 million restaurants, and 835,000 vacation rentals, and we believe that continuing to build in-destination listings gives us a unique opportunity to delight users in more moments during more trips. We continue to execute this strategy and increase the stickiness of our products by investing in increasing bookable supply and strengthening our user engagement through our mobile platform.

Our Key Strengths

Our mission is to help people around the world plan, book and experience the perfect trip. In order to achieve this goal and our growth strategies, we leverage our key assets—a loyal travel community, rich user-generated content, end-to-end travel experience, continuous technological innovation and global reach—as follows:

- ***Loyal Travel Community.*** We believe that we have the largest breadth of travel-planning content in the global travel industry and, as a result, travelers gravitate to our websites to research and plan their trips. We view our large, highly engaged and loyal community of travelers as a valuable resource and provide them an interactive platform to share their experiences. After completing their trip, consumers can return to our websites to write reviews to give back to the community that helped them plan their trip. To encourage better experiences for travelers and to create a feedback loop between the hospitality industry and travelers, we engage hospitality management representatives to respond to reviews of their properties on our website. Through this cycle, more content is generated, which further drives community, traffic, loyalty and higher search engine rankings, all of which leads to additional content creation. We believe this sense of community among users and brand loyalty is a key competitive advantage for TripAdvisor.
- ***Rich User-Generated Content.*** To help our users plan their trip, the TripAdvisor platform contains 465 million reviews and opinions as well as 90 million candid traveler photos on 7 million places to stay, places to eat and things to do. This valuable content creation reached 290 contributions per minute in 2016, up approximately 40% from December 31, 2015. In addition, our tools and travel content are

available to users around the world in 28 different languages on all devices, including mobile phone, desktop and tablet.

- ***End-to-End Travel Experience.*** TripAdvisor products enable users to research, plan, price compare and book travel in a comprehensive, end-to-end fashion across a portfolio of 1,060,000 hotels, 835,000 vacation rentals, 4.3 million restaurants and 760,000 activities and attractions worldwide. In addition to user-generated content, our websites and applications feature price comparison tools and search functionality with links to partner websites, including travel advertisers, on which users can find and book their travel arrangements at the best prices. We also enable users to book hotels, activities and attractions and restaurant reservations on our site. These capabilities cover all phases of the travel experience, from pre-trip research and booking to in-destination booking to post-trip review submission.
- ***Technology and Product.*** Continuous product testing and speed to market are two of our most important priorities, as they enable us to create a richer user experience. We operate on a regular product release cycle, where releases contain new product features for our websites and mobile applications. Our ongoing commitment to innovation also extends to content syndication and review collection partnerships, as we leverage our technology and content for the benefit of other websites. In addition, we utilize manual and electronic fraud detection in order to maintain the quality and authenticity of user reviews.
- ***Global Reach.*** We are a global company, evidenced both through the reach of our portfolio of branded websites and through our in-market staffing in 24 countries. As of December 31, 2016, we had 1,614 employees based outside of the United States, representing approximately 49% of our employee population. As of December 31, 2016, we had branded websites in 48 markets outside the United States in 28 languages. We have approximately 1.6 billion review translations, and are committed to continuing to improve the in-country user experience and the local content coverage for all of our points-of-sale. We believe that the universally-relevant content and community of our core TripAdvisor platform and our other brands uniquely position us to appeal to travelers throughout the world.

Our Industry

We operate in the global travel industry, focusing exclusively on online travel activity and the online advertising market.

According to Phocuswright, global travel spending is expected to be greater than \$1.3 trillion in 2017, or an increase of 5% over 2016. Recent trends show that, each year, an increasing percentage of global travel spending is conducted online through supplier websites and OTAs. We believe that this trend will continue as online penetration continues to grow, as more consumers around the world gain broadband access to the internet, as smartphone, tablets and other mobile computing devices continue to proliferate, and as travel activity increases along with an expanding middle class in certain countries like China and India.

We believe that the internet will continue to become even more integral to the travel-planning process due to increasing worldwide online penetration, particularly given the capabilities that the internet provides travelers, including the ability to refine searches, compare destinations, read and contribute user-generated content, view real-time pricing and determine availability, complete bookings, and access information while in-destination.

Travel-related advertisers continue to allocate greater percentages of their marketing budgets to online channels, mirroring the trend in consumer media consumption generally. Given the size and growth of the global travel market, as well as a growing percentage of travel transactions taking place online, we believe that travel-related businesses will continue to devote significant marketing dollars to online platforms in order to advertise their travel products and services.

Our Competition

We compete in rapidly evolving and competitive markets. We face competition for content, users, advertisers, online travel search and price comparison services or what is known in the industry as hotel metasearch, and online reservations. In the competition to attract users to our platform, we rely on our ability to acquire traffic through

offline brand recognition and brand-direct efforts such as online search, email and television. These marketing strategies can be impacted by competitive site content, changes to our website architecture and page designs, changes to search engine ranking algorithms, updates in competitor advertising strategies, or changes to display ordering in search engine results such as preferred placement for internal products offered by search engines.

We compete with different types of companies in the various markets and geographies we participate in, including large and small companies in the travel space as well as broader service providers. More specifically:

- In our Hotel segment, we face competition from OTAs (including Expedia, Inc. and The Priceline Group, Inc. and certain of their respective subsidiaries), hotel metasearch providers (including Trivago, Kayak, Ctrip.com International, Ltd., and HotelsCombined), large online search, social media, and marketplace companies (including Google, Microsoft Bing, Yahoo, Baidu, Facebook, Alibaba, and Amazon), traditional offline travel agencies, and global hotel chains seeking to promote direct bookings.
- We also face competition in our Non-Hotel segment. Our Attractions business competes with traditional travel agencies, online providers, wholesalers, and individual tour operators. Our Restaurants business competes with other online restaurant reservation services, such as Yelp and OpenTable (a subsidiary of Priceline), and local or regional providers. Our Vacation Rentals business competes with companies focused on alternative lodging and shared accommodations, including Airbnb and HomeAway (a subsidiary of Expedia).

As the industry shifts towards online travel services and the technology supporting it continues to evolve, including platforms such as smartphone and tablet computing devices, we anticipate that the existing competitive landscape will continue to change, new competitors may emerge, and industry consolidation may continue.

Our Commercial Relationships

We have a number of commercial relationships that are important to the success of our business. Although these relationships are memorialized in agreements, many of these agreements are for limited terms or are terminable at will or on short notice. As a result, we work hard to ensure the mutual success of these relationships.

We have commercial relationships with the majority of the world's leading OTAs as well as a variety of other travel suppliers pursuant to which these companies purchase traveler leads from us, generally on a click-based advertising basis. For the year ended December 31, 2016, our two most significant click-based and transaction advertising partners were Expedia and Priceline, including certain of their respective brands.

Our instant booking feature enables hotel shoppers to book directly with a third-party partner, without leaving our website. To facilitate this user experience, we have entered into contracts with the majority of the world's top hotel chains, including Accor, Best Western International, Carlson Rezidor, Choice Hotels, Hyatt Hotels, Marriott International, Hilton, and Wyndham Worldwide. We have also partnered with Priceline and Expedia whereby certain of their online travel brands participate in our instant booking feature. As a result, users are able to book more than 560,000 hotels worldwide, powered by our partners, without leaving the TripAdvisor site or mobile experience.

Marketing and Promotions

Our marketing programs are intended to build and maintain the value of our brands, promote consumer engagement and contributions, drive qualified clicks to our partners and strategically position our brands in the market. Our long-term success depends on our continued ability to maintain and increase the overall number of users flowing through our platform in a cost-effective manner, to engage users throughout the travel planning and booking phases, and to attract consumers who will share their reviews from their trips. We reach consumers across mobile and desktop devices through our online traffic acquisition programs, such as SEM, retargeting and online marketing campaigns, as well as through our offline brand campaigns. We also utilize our CRM channels by sending relevant and engaging communications to our members via email. We have a robust global public relations program that yields placements on a constant basis in major print and online publications. From 2013 to 2015, we invested in television advertising campaigns to promote the TripAdvisor brand as well as to publicize our new price comparison and booking product features. During 2016, we began utilizing promotional campaigns, such as sweepstakes and

giveaways, to educate and reward consumers for using our instant booking product. We continue to explore new ways to build brand awareness and growth in both new and existing marketing channels, which may include traditional media and social media channels including Facebook and Twitter to deepen user engagement.

Operations and Technology

We have assembled a team of highly skilled software engineers, computer scientists, data scientists, network engineers, and systems engineers whose expertise spans a broad range of technical areas, including a wide variety of open source operating systems, databases, languages, analytics, networking, scalable web architecture, operations, and warehousing technologies. We make significant investments in product and feature development, data management, personalization technologies, scalable infrastructures, networking, data warehousing, and search engine technologies. The TripAdvisor-branded websites are powered primarily using Java programming language.

Our systems infrastructure, web and database servers for TripAdvisor-branded websites are housed at two geographically separate facilities and have multiple communication links as well as continuous monitoring and engineering support. Each facility is fully self-sufficient and operational with its own hardware, networking, software, and content, and is structured in an active/passive, fully redundant configuration. Substantially all of our software components, data, and content are replicated in multiple datacenters and development centers, as well as being backed up at offsite locations. Our systems are monitored and protected through multiple layers of security. Several of our individual subsidiaries and businesses, including Viator, have their own data infrastructure and technology teams.

Intellectual Property

Our intellectual property, including patents, trademarks, copyrights, domain names, trade dress, proprietary technology and trade secrets, is an important component of our business. We rely on our intellectual property rights in our content, proprietary technology, software code, ratings indexes, databases of reviews and forum content, images, videos, graphics and brands. We have acquired some of our intellectual property rights through licenses and content agreements with third parties. These licenses and agreements may place restrictions on the use of our intellectual property.

We protect our intellectual property by relying on our terms of use, confidentiality procedures and contractual provisions, as well as on international, national, state and common law rights. In addition, we enter into confidentiality and invention assignment agreements with employees and contractors, and confidentiality agreements with other third parties. We protect our brands by pursuing the trademark registration of our core brands, as appropriate, maintaining our trademark portfolio, securing contractual trademark rights protection when appropriate, and relying on common law trademark rights when appropriate. We also register copyrights and domain names as deemed appropriate. Additionally, we protect our trademarks, domain names and copyrights with the use of intellectual property licenses and an enforcement program.

We have considered, and will continue to consider, the appropriateness of filing for patents to protect future inventions, as circumstances may warrant. However, many patents protect only specific inventions and there can be no assurance that others may not create new products or methods that achieve similar results without infringing upon patents owned by us.

Government Regulation

We are subject to a number of United States federal and state and foreign laws and regulations that affect companies conducting business on the internet, many of which are still evolving and being tested in courts, and could be interpreted in ways that could harm our business. These may involve user privacy, libel, rights of publicity, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation and online payment services. In particular, we are subject to United States federal and state and foreign laws regarding privacy and protection of user data. Foreign data protection, privacy, and other laws and regulations are often more restrictive than those in the United States. United States federal and state and foreign laws and regulations are constantly evolving and can be subject to

significant change. In addition, the application and interpretation of these laws and regulations is often uncertain, particularly in the new and rapidly-evolving industry in which we operate. There are also a number of legislative proposals pending before the United States Congress, various state legislative bodies, and foreign governments concerning data protection, which could affect us.

In addition, we provide advertising data and information and conduct marketing activities that are subject to United States federal and state consumer protection laws that regulate unfair and deceptive practices, domestically and internationally. The United States and European Union have begun to adopt legislation that regulates certain aspects of the internet, including online editorial and user-generated content, user privacy, behavioral targeting and online advertising, taxation, and liability for third-party activities.

United States federal, state and foreign governments have considered from time to time alternative legislative and regulatory proposals that would increase regulation on internet advertising. It is impossible to accurately predict whether new taxes or regulations will be imposed on our services, and whether or how we might be affected. Increased regulation of the internet could increase the cost of doing business or otherwise materially adversely affect our business, financial condition or operational results.

We are subject to laws that require protection of user privacy and user data. In our processing of reservations, we receive and store a large volume of personally identifiable data in the United States, Europe and Asia. This data is increasingly subject to laws and regulations in numerous jurisdictions around the world, including the Commission of the European Union through its Data Protection Directive and variations and implementations of that directive in the member states of the European Union. The enactment, interpretation and application of these laws is in a state of flux, and the interpretation and application of such laws may vary from country to country.

Corporate History, Equity Ownership and Voting Control

TripAdvisor was co-founded in February 2000 by Stephen Kaufer, our current President and Chief Executive Officer. In April 2004, TripAdvisor was acquired by IAC/InterActiveCorp, or IAC. In August 2005, IAC spun-off its portfolio of travel brands, including TripAdvisor, into a separate newly-formed Delaware corporation called Expedia, Inc., or Expedia. On December 20, 2011 Expedia completed a spin-off of TripAdvisor into a separate publicly-traded Delaware corporation. We refer to this second spin-off transaction as the “Spin-Off.” Following the Spin-Off, on December 21, 2011, TripAdvisor began trading on The NASDAQ Global Select Market, or NASDAQ, as an independent public company under the symbol “TRIP.”

On December 11, 2012, Liberty Interactive Corporation, or Liberty, purchased an aggregate of 4,799,848 shares of common stock of TripAdvisor from Barry Diller, our former Chairman of the Board of Directors and Senior Executive, and certain of his affiliates. Following this transaction, Liberty beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock.

On August 27, 2014, the entire beneficial ownership of our common stock and Class B common stock held by Liberty was acquired by Liberty TripAdvisor Holdings, Inc., or LTRIP. Simultaneously, Liberty, LTRIP’s former parent company, distributed, by means of a dividend, to the holders of its Liberty Ventures common stock, Liberty’s entire equity interest in LTRIP. We refer to this transaction as the Liberty Spin Off. As a result of the Liberty Spin-Off, effective August 27, 2014, LTRIP became a separate, publicly traded company holding 100% of Liberty’s interest in TripAdvisor.

As a result of these transactions, as of December 31, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 13.8% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.5% of the outstanding common stock. Because each share of Class B common stock is generally entitled to ten votes per share and each share of common stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing approximately 56.4% of our voting power.

Financial Information about Segments and Geographic Information

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. Financial information related to our two reportable segments and geographic information required herein is contained in “Note 17 — *Segment and Geographic Information*,” in the notes to our consolidated financial statements in Item 8.

For the years ended December 31, 2016, 2015 and 2014, Expedia and Priceline, each accounted for more than 10% of our consolidated revenue and together accounted for 46%, 46% and 46% of our consolidated revenue, respectively. Nearly all of this concentration of revenue is recorded in our Hotel segment for these reporting periods. As of December 31, 2016 and 2015, Expedia accounted for 12% and 11%, respectively, of our total accounts receivable.

Employees

As of December 31, 2016, we had 3,327 employees. Of these employees, approximately 51% were based in the United States. We believe we have good relationships with our employees, including relationships with employees represented by international works councils or other similar organizations.

Seasonality

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel advertisers to market to potential travelers and, therefore, our financial performance, tend to be seasonal as well. As a result, our financial results tend to be seasonally highest in the third quarter of a year, as it is a key period for travel research and trip-taking, compared to the first and fourth quarters which represent seasonal low points. Further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

Additional Information

We maintain a corporate website at ir.tripadvisor.com. Except as explicitly noted, the information on our website, as well as the websites of our various brands and businesses, is not incorporated by reference in this Annual Report on Form 10-K, or in any other filings with, or in any information furnished or submitted to, the SEC.

We make available, free of charge through the Investor Relations section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Exchange Act as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC.

We post our code of business conduct and ethics, which applies to all employees, including all executive officers, senior financial officers and directors, on our corporate website at www.tripadvisor.com. Our code of business conduct and ethics complies with Item 406 of SEC Regulation S-K and the rules of NASDAQ. We intend to disclose any changes to the code that affect the provisions required by Item 406 of Regulation S-K, and any waivers of the code of ethics for our executive officers, senior financial officers or directors, on our corporate website.

Item 1A. Risk Factors

You should consider carefully the risks described below together with all of the other information included in this Annual Report as they may impact our business, results of operations and/or financial condition. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business, results of operations or financial condition. If any of the events described in the following risks factors occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

If we are unable to continue to increase visitors to our websites and mobile apps and to cost-effectively convert these visitors into revenue-generating users, our revenue, financial results and business could be harmed.

Our long term success depends on our continued ability to maintain and increase the overall number of visitors flowing through our platforms in a cost effective manner, to engage users throughout the travel planning and booking phases and to attract consumers who will share their reviews from their trips. The primary asset that we use to attract visitors to our websites and convert these visitors into engaged users and bookers is our ability to collect or create, organize and distribute high-quality, commercially valuable content and products that meet users' specific interests. Our traffic and user engagement could be adversely affected by a number of factors, including but not limited to increased competition, reduced consumer awareness of our brands, declines or inefficiencies in traffic acquisition, and macroeconomic conditions. In the past year, certain of our competitors have launched advertising campaigns expressly designed to drive consumer traffic directly to their websites, and these campaigns may negatively impact traffic to our site. There can be no assurances that we will continue to provide content and products in a cost-effective manner or in a manner that meets rapidly changing consumer demand. Any failure to obtain and manage content and products in a cost-effective manner that will engage users, or any failure to provide content and products that are perceived as useful, reliable and trustworthy, could adversely affect user experiences and their repeat behavior, reduce traffic to our websites and negatively impact our business and financial performance.

Our dedication to making the user experience our highest priority may cause us to prioritize rapid innovation and user engagement over short-term financial results.

We strive to create the best experience for our users, providing them with the information, research and tools to enable them to plan, book, and experience the perfect trip. We believe that in doing so we will increase our rates of conversion, revenue per shopper and, ultimately, our financial performance over the long-term. We have taken actions in the past and may continue to make decisions going forward that have the effect of reducing our short-term revenue or profitability if we believe that the decisions benefit the aggregate user experience. For example, we may introduce changes to existing products or new products that direct users away from formats or use cases where we have a proven means of monetization, e.g. our instant book product. In addition, our approach of putting users first may negatively impact our relationship with existing or prospective advertisers. These actions and practices could result in a loss of advertisers, which in turn could harm our results of operations. The short-term reductions in revenue or profitability could be more severe than we anticipate or these decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with users and advertisers, and our business and results of operations could be harmed.

We derive a substantial portion of our revenue from advertising and any significant reduction in spending by advertisers or redirections of advertising spend could harm our business.

We derive a substantial portion of our revenue from the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based advertising. We enter into master advertising contracts with our advertising partners, however, these agreements are generally limited to matters such as privacy and compliance, payment terms and conditions, termination and indemnities and most can be terminated by our partners at will or on short notice. Our ability to grow advertising revenue with our existing or new advertising partners is dependent in large part on our ability to generate revenue for them relative to other alternatives. Advertisers will not continue to do business with us if their investment in such advertising does not generate sales leads, customers, bookings, or

revenue and profit on a cost-effective basis. Our ability to provide value to our advertising partners depends on a number of factors, including acceptance of online advertising versus more traditional forms of advertising or more effective models, competitiveness of our products, traffic quality, perception of our platform, availability and accuracy of analytics and measurement solutions to demonstrate our value, and macroeconomic conditions, whether in the advertising industry generally, among specific types of marketers or within particular geographies. We cannot guarantee that our current advertisers will fulfill their obligations under existing contracts, continue to advertise beyond the terms of existing contracts or enter into any additional contracts with us.

Click-based advertising accounts for the majority of our advertising revenue. Our CPC pricing for click-based advertising depends, in part, on competition between advertisers. If our large advertisers become less competitive with each other, merge with each other or with our competitors, focus more on per-click profit than on traffic volume, or are able to reduce CPCs, this could have an adverse impact on our click-based advertising revenue which would, in turn, have an adverse effect on our business, financial condition and results of operations.

We rely on a relatively small number of significant advertising partners and any reduction in spending by or loss of these partners could seriously harm our business.

We derive a substantial portion of our revenue from a relatively small number of advertising partners and rely significantly on our relationships. For example, for the year ended December 31, 2016, our two most significant advertising partners, Expedia and Priceline (and their subsidiaries), accounted for a combined 46% of total revenue. While we enter into master advertising contracts with our partners, the terms of these agreements generally address matters such as privacy and compliance, payment terms and conditions, termination and indemnities and most of these contracts can be terminated by our partners at will or on short notice. If any of our significant advertisers were to cease or significantly curtail advertising on our websites, we could experience a rapid decline in our revenue over a relatively short period of time which would have a material impact on our business.

Changes in internet search engine algorithms and dynamics, or search engine disintermediation, could have a negative impact on traffic for our sites and ultimately, our business and results of operations.

We rely heavily on internet search engines, such as Google, to generate traffic to our websites, principally through the purchase of travel-related keywords as well as through free, or organic, search. Pricing and operating dynamics for these traffic sources can change rapidly, both technically and competitively. Search engines frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our websites can be negatively affected. In addition, a search engine could, for competitive or other purposes, alter its search algorithms or results causing our websites to place lower in organic search query results. If a major search engine changes its algorithms in a manner that negatively affects the search engine ranking of our websites or those of our partners, or if competitive dynamics impact the cost or effectiveness of SEO or SEM in a negative manner, our business and financial performance would be adversely affected. Furthermore, our failure to successfully manage our SEO and SEM strategies could result in a substantial decrease in traffic to our websites, as well as increased costs if we were to replace free traffic with paid traffic.

In addition, to the extent that Google or other leading search or metasearch engines that have a significant presence in our key markets, disintermediate OTAs or travel content providers, whether by offering their own comprehensive travel planning or shopping capabilities, or by referring leads to suppliers, other favored partners or themselves directly, there could be a material adverse impact on our business and financial performance. To the extent these actions have a negative effect on search results and traffic to our site, our business and financial performance could be adversely affected.

We also rely on application marketplaces, such as Apple's App Store and Google's Play, to drive downloads of our applications. In the future, Apple, Google or other marketplace operators may make changes to their marketplaces that make access to our products more difficult. For example, our applications may receive unfavorable treatment compared to the promotion and placement of competing applications, such as the order in which they appear within marketplaces. Similarly, if problems arise in our relationships with providers of application marketplaces, traffic to our site and our user growth could be harmed.

We continue to focus on our “instant booking” feature despite anticipated and unanticipated challenges and risks which could have a negative impact on our business and financial performance.

Instant booking is a feature that enables users to book a hotel reservation directly with a hotel or online travel agency partner while remaining on the TripAdvisor website. We believe that allowing users to book directly online without leaving the TripAdvisor site will result in a better user experience, increased user engagement and, ultimately, additional revenue to the Company. We began rolling out this feature out the U.S. in 2014 and completed the roll out in international markets in 2016. We are currently focused on (i) improving the shopping experience to drive increased user engagement, better conversion and more bookings, and (ii) continuing to earn users’ trust as their booking site of choice.

There are, however, additional risks associated with this feature. Currently our instant booking feature is monetizing at a lower revenue per hotel shopper rate compared to our metasearch feature. While we expect to close this monetization gap, primarily by continuing to streamline our booking path to enhance user experience, persistently promoting the TripAdvisor brand as a booking channel and continuing to seek partners with strong branding and supply channels, there is no guarantee that these initiatives will ultimately be successful and, if not, our revenue may be materially adversely affected. In addition, instant booking revenue recorded under the consumption model is recognized at the time the traveler completes his or her stay. Comparatively, revenue recognized under our metasearch feature is recorded when a traveler makes the click-through to the travel partners’ websites. In future periods, greater contribution of revenue from our instant booking consumption model would result in additional revenue recognized at the time of a consumed stay and thus a shift in the timing of our revenue recognition.

Consumer adoption and use of mobile devices creates new challenges and, if we are unable to operate effectively on mobile devices, our business may be adversely affected.

The number of people who access the internet through mobile devices, such as mobile phones, has increased substantially in the last few years and we anticipate that the rate of use of these devices will continue to grow. The mobile market in general remains a rapidly evolving market. As new devices and platforms are released, users may begin consuming content in a manner that is more difficult to monetize. Advertising opportunities may be more limited on mobile devices. In addition, given the device sizes and technical limitations of these devices, mobile consumers may not be willing to download multiple apps from multiple companies providing similar service and instead prefer to use one or a limited number of apps for their hotel, restaurant and attractions activity.

To address these growing user demands, we continue to extend our platform to develop and improve upon our mobile applications and monetization strategies. However, currently, we monetize users of mobile phone devices at a significantly lower rate compared to users who access our websites through desktop computers or tablets. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile offerings and websites optimized for mobile phone devices and efficiently and effectively advertise and distribute on these platforms, or if our mobile offerings are not used by consumers, our future growth and results of operations could be negatively impacted.

Declines or disruptions in the economy in general and travel industry in particular could adversely affect our businesses and financial performance.

Our businesses and financial performance are affected by the health of the global economy generally as well as the travel industry and leisure travel in particular. Sales of travel services tend to decline or grow more slowly during economic downturns and recessions when consumers engage in less discretionary spending, are concerned about unemployment or economic weakness, have reduced access to credit or experience other concerns that reduce their ability or willingness to travel. The global economy may be adversely impacted by unforeseen events beyond our control including incidents of actual or threatened terrorism, regional hostilities or instability, unusual weather patterns, natural disasters, political instability and health concerns (including epidemics or pandemics), defaults on government debt, significant increases in fuel and energy costs, tax increases and other matters that could reduce discretionary spending, tightening of credit markets and further declines in consumer confidence. Decreased travel expenditures could reduce the demand for our services and have a negative impact on our business, working capital and financial performance.

In addition, the uncertainty of macro-economic factors and their impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union (“Brexit”). Since the referendum, global markets and foreign currency exchange rates have experienced increased volatility, including a sharp decline in the value of the British Pound Sterling relative to the U.S. dollar. To leave the European Union, the United Kingdom must provide official notice of its decision and negotiate the terms of its exit. This process could take two years or more. The effects of Brexit will depend on, among other things, the terms, nature and timetable of the exit and the parties have not yet established these terms, Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. Any of these effects of Brexit, and others we cannot anticipate, may have a negative effect on the travel industry and may adversely affect our business.

We rely on the value of our brands and consumer trust in our brands. If we are not able to protect, maintain and enhance our brands, or if events occur that damage our reputation and brands, our business may be harmed.

We believe that the strength of our brands (particularly the TripAdvisor brand) has contributed significantly to our success and that maintaining and enhancing our brands is critical to expanding our base of users, to creating content and to attracting advertisers. As a result, we invest significantly in brand marketing. We expect these investments to continue, or even increase, as a result of a variety of factors, including relatively high levels of advertising spending from competitors, the increasing costs of supporting multiple brands, expansion into new geographies, products and product positioning where our brands are less well known, inflation in media pricing, and the continued emergence and relative traffic share growth of search engines as destination sites for travelers. Such efforts may not maintain or enhance consumer awareness of our brands and, even if we are successful in our branding efforts, such efforts may not be cost-effective or as efficient as they have been historically. If we are unable to maintain or enhance consumer awareness of our brands or to generate demand in a cost-effective manner, it would have a material adverse effect on our business and financial performance.

Our ability to protect, maintain and enhance our brand also depends largely on our ability to maintain consumer confidence in our products, in the quality and integrity of our content and other information found on our platform. If consumers do not believe our recommended reviews to be useful and reliable, they may seek other services to obtain the information for which they are looking and may not return to our platform as often in the future, or at all. In addition, unfavorable publicity regarding, for example, our practices relating to privacy and data protection, product changes, competitive pressures, litigation or regulatory activity, could adversely affect our reputation with our users and our advertisers. Such negative publicity also could have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue, which could adversely affect our business and financial results.

We operate in an increasingly competitive global environment and our failure to compete effectively could reduce our market share and harm our financial performance.

We compete in rapidly evolving and competitive markets. We face competition for content, users, advertisers, online travel search and price comparison services, or what is known in the industry as hotel metasearch, and online reservations. In the competition to attract users to our platform, we rely on our ability to acquire traffic through offline brand recognition and brand-direct efforts such as online search, email and television. These marketing strategies can be impacted by competitive site content, changes to our website architecture and page designs, changes to search engine ranking algorithms, updates in competitor advertising strategies, or changes to display ordering in search engine results such as preferred placement for internal products offered by search engines.

We also compete with different types of companies in the various markets and geographies we participate in, including large and small companies in the travel space as well as broader service providers. More specifically:

- In our Hotel segment, we face competition from OTAs (including Expedia, Inc. and The Priceline Group Inc. and certain of their respective subsidiaries), hotel metasearch providers (including Trivago, Kayak, Ctrip.com International, Ltd., and HotelsCombined), large online search, social media, and marketplace companies (including Google, Microsoft Bing, Yahoo, Baidu, Facebook, Alibaba, and Amazon), traditional offline travel agencies, and global hotel chains seeking to promote direct bookings.
- We also face competition from different companies in each of the operating segments in our Non-Hotel segment. Our Attractions business competes with traditional travel agencies, wholesalers, and individual tour operators as well as Airbnb and similar websites that have added other travel services such as tours and activities. Our Restaurants business competes with other online restaurant reservation services, such as Yelp and OpenTable (a subsidiary of Priceline). Our Vacation Rentals business competes with companies focused on alternative lodging and shared accommodations, including Airbnb and HomeAway (a subsidiary of Expedia).

Many of our competitors have significantly greater financial, technical, marketing and other resources compared to us and have expertise in developing online commerce and facilitating internet traffic as well as large client bases. They also have the ability to leverage other aspects of their business to enable them to compete more effectively against us. In addition, many of our competitors, including online search companies, continue to expand their voice and artificial intelligence capabilities, which may provide them with a competitive advantage in travel. We cannot assure you that we will be able to compete successfully against our current, emerging and future competitors or on platforms that may emerge, or provide differentiated products and services to our traveler base.

Certain of the companies we do business with, including some of our click-based advertising partners, are also our competitors. The consolidation of our competitors and partners, including Expedia (through its acquisitions of Orbitz, Travelocity, and HomeAway) and Priceline (through its acquisitions of Kayak and OpenTable), may affect our relative competitiveness and our partner relationships. Competition and consolidation could result in higher traffic acquisition costs, reduced margins on our advertising services, loss of market share, reduced customer traffic to our websites and reduced advertising by travel companies on our websites.

As the industry shifts towards online travel services and the technology supporting it continues to evolve, including platforms such as smartphone and tablet computing devices, competition is likely to intensify. Competition in our industry may result in pricing pressure, loss of market share or decreased member engagement, any of which could adversely affect our business and financial performance.

We rely on information technology to operate our business and remain competitive, and any failure to adapt to technological developments or industry trends could harm our businesses.

We depend on the use of sophisticated information technologies and systems for, among other things, website and mobile apps, supplier connectivity, communications, reservations, payment processing, procurement, customer service and fraud prevention. Our future success depends on our ability to continuously improve and upgrade our systems and infrastructure to meet rapidly evolving consumer trends and demands while at the same time maintaining the reliability and integrity of our systems and infrastructure. We may not be able to maintain or replace our existing systems or introduce new technologies and systems as quickly as we would like or in a cost-effective manner. We may not be successful, or as successful as our competitors, in developing technologies and systems that operate effectively across multiple devices and platforms in a way that is appealing to our users.

In addition, the emergence of alternative platforms such as smartphone and tablet computing devices and the emergence of niche competitors who may be able to optimize products, services or strategies for such platforms will require new investment in technology. New developments in other areas, such as cloud computing, could also make it easier for competition to enter our markets due to lower up-front technology costs.

If we do not continue to innovate and provide tools and services that are useful to travelers, we may not remain competitive, and our business and financial performance could suffer.

Our success depends in part on continued innovation to provide features and services that make our platform compelling to travelers. Our competitors are continually developing innovations in online travel-related services and features. As a result, we are continually working to improve our business model and user experience in order to drive user traffic and conversion rates. We can give no assurances that the changes we make will yield the benefits we expect and will not have adverse impacts that we did not anticipate. If we are unable to continue offering innovative products and services and quality features that travelers want to use, existing users may become dissatisfied and use competitors' offerings and we may be unable to attract additional users, which could adversely affect our business and financial performance.

We are dependent upon the quality of traffic in our network to provide value to online advertisers, and any failure in our quality control could have a material adverse effect on the value of our websites to our advertisers and adversely affect our revenue.

We use technology and processes to monitor the quality of the internet traffic that we deliver to online advertisers and have identified metrics to demonstrate the quality of that traffic. These metrics are used to not only identify the value of advertising on our website but also to identify low quality clicks such as non-human processes, including robots, spiders or other software; the mechanical automation of clicking; and other types of invalid clicks or click fraud. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic, or traffic that online advertisers deem to be invalid, will be delivered to such online advertisers. As a result, we may be required to credit amounts owed to us by our advertisers. Furthermore, low-quality or invalid traffic may be detrimental to our relationships with advertisers, and could adversely affect our advertising pricing and revenue.

We rely on assumptions and estimates and data to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We believe that certain metrics are key to our business, including unique visitors, hotel shoppers, revenue per hotel shopper, and number of reviews and opinions. As the industry in which we operate and our business continues to evolve, so too might the metrics by which we evaluate our business. While the calculation of these metrics is based on what we believe to be reasonable estimates, our internal tools are not independently verified by a third party and have a number of limitations and, furthermore, our methodologies for tracking these metrics may change over time. For example, a single person may have multiple accounts or browse the internet on multiple browsers or devices, some users may restrict our ability to accurately identify them across visits, some mobile applications automatically contact our servers for regular updates with no user action, and we are not always able to capture user information on all of our platforms. As such, the calculations of our unique visitors may not accurately reflect the number of people actually visiting our platforms. We continue to improve upon our tools and methodologies to capture data and believe that our current metrics are more accurate; however, the improvement of our tools and methodologies could cause inconsistency between current data and previously reported data, which could confuse investors or lead to questions about the integrity of our data. Also if the internal tools we use to track these metrics under-count or over-count performance or contain algorithm or other technical errors, the data we report may not be accurate. In addition, historically, certain metrics were calculated by independent third parties. Accordingly readers should not place undue reliance on these numbers.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

Our future success depends upon the continued contributions of our senior corporate management and other key employees. In particular, the contributions of Stephen Kaufer, our co-founder, President and Chief Executive Officer, are critical to our overall management. We cannot ensure that we will be able to retain the services of these individuals, and the loss of one or more of our key personnel could seriously harm our business. We do not maintain any key person life insurance policies.

In addition, competition remains intense for well-qualified employees in certain aspects of our business, including software engineers, developers, product management and development personnel, and other technology professionals. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. As a global company, we aim to attract quality employees from all over the world, so any restrictions on travel for professional or personal purposes, such as those put in place in the United States in early 2017, may cause significant disruption to our businesses or negatively affect our ability to attract and retain employees on a global basis. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected.

The online vacation rental market is rapidly evolving and if we fail to predict the manner in which the market develops, our business and prospects may suffer.

We offer vacation rental services on our TripAdvisor-branded sites as well as through our U.S.-based FlipKey and Vacation Home Rentals and European-based Holiday Lettings and Niumba businesses. The vacation rental market has been and continues to be, subject to regulatory development that affect the vacation rental industry and the ability of companies like us to list those vacation rentals online. For example, some states and local jurisdictions have adopted or are considering statutes or ordinances that prohibit property owners and managers from renting certain properties for fewer than 30 consecutive days or otherwise limit their ability to do so, and other states and local jurisdictions may introduce similar regulations. Some states and local jurisdictions also have fair housing or other laws governing whether and how properties may be rented, which they assert apply to vacation rentals. Many homeowners, condominium and neighborhood associations have adopted rules that prohibit or restrict short-term vacation rentals. In addition, many of the fundamental statutes and ordinances that impose taxes or other obligations on travel and lodging companies were established before the growth of the internet and e-commerce, which creates a risk of these laws being used in ways not originally intended that could burden property owners and managers or otherwise harm our business. Operating in this dynamic regulatory environment and in new and untested jurisdictions requires significant management attention and financial resources. We cannot assure that our efforts will be successful, and the investment and additional resources required to manage growth will produce the desired levels of revenue or profitability.

We may be subject to claims that we violated intellectual property rights of others and these claims can be extremely costly to defend and could require us to pay significant damages and limit our ability to operate.

Certain companies in the internet and technology industries that own patents, copyrights, trademarks and trade secrets frequently enter into litigation based on allegations of infringement or other violations of those intellectual property rights in order to extract value from technology companies, such as royalties in connection with grants of licenses. We have received in the past, and expect in the future to receive notices that claim we have misappropriated or misused other parties' intellectual property rights. Any intellectual property claim against us, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert management's attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology or content found to be in violation of another party's rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, or content, which could require significant effort and expense and make us less competitive in the relevant market. Any of these results could harm our business and financial performance.

Acquisitions, investments, significant commercial arrangements and/or new business strategies could disrupt our ongoing business and present new challenges and risks.

Our success will depend, in part, on our ability to expand our product offerings and expand user engagement in order to grow our business in response to changing technologies, user and advertiser demands and competitive pressures. As a result, we have acquired, invested in and/or entered into significant commercial arrangements with a number of new business in the past and our future growth may depend, in part, on future acquisitions, investments, commercial arrangements/or changes in business strategies, any of which could be material to our financial

conditions and results of operations. Such endeavors may involve significant risks and uncertainties, including, but not limited to, the following:

- Expected and unexpected costs incurred in identifying and pursuing these endeavors, and performing due diligence on potential targets that may or may not be successful;
- Use of cash resources and incurrence of debt and contingent liabilities in funding these endeavors that may limit other potential uses of our cash, including stock repurchases, retirement of outstanding indebtedness and/or dividend payments;
- Amortization expenses related to acquired intangible assets and other adverse accounting consequences;
- Diversion of management's attention or other resources from our existing business;
- Difficulties and expenses in integrating the operations, products, technology, privacy protection systems, information systems or personnel of the company, including the assimilation of corporate cultures;
- Difficulties in implementing and retaining uniform standards, controls, procedures, policies and information systems;
- The assumption of known and unknown debt and liabilities of the acquired company, including costs associated with litigation and other claims relating to the acquired company;
- Failure of any company which we have acquired, in which we have invested, or with which we have a commercial arrangement, to achieve anticipated revenues, earnings or cash flows or to retain key management or employees;
- Failure to generate adequate returns on acquisitions and investments;
- With respect to minority investments, limited management or operational control and reputational risk, which risk is heightened if the controlling person in such case has business interests, strategies or goals that are inconsistent with ours;
- Entrance into markets in which we have no direct prior experience and increased complexity in our business;
- Impairment of goodwill or other intangible assets such as trademarks or other intellectual property arising from acquisitions; and
- Adverse market reaction to acquisitions.

We have recently invested, and may in the future invest, in privately-held companies and these investments are currently accounted for under the cost method. Such investments are inherently risky in that such companies are typically at an early stage of development, may have no or limited revenues, may not be or may never become profitable, may not be able to secure additional funding or their technologies, services or products may not be successfully developed or introduced into the market. Further, our ability to liquidate any such investments is typically dependent upon some liquidity event, such as a public offering or acquisition, since no public market exists for such securities. Valuations of such privately-held companies are inherently complex and uncertain due to the lack of liquid market for the company's securities. Moreover, we could lose the full amount of any of our investments and any impairment of our investments could have a material adverse effect on our financial condition and results of operations.

We cannot assure you that these investments will be successful or that such endeavors will result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible or that we will achieve these benefits within a reasonable period of time.

If we fail to manage our growth effectively, our brand, results of operations and business could be harmed.

We have experienced rapid growth in our headcount and operations, including through acquisitions of other businesses and in new international markets. We continue to make substantial investments in our technology and

sales and marketing organizations. This growth places substantial demands on management and our operational infrastructure. In addition, as our business matures, we make periodic changes and adjustments to our organization in response to various internal and external considerations, including market opportunities, the competitive landscape, new and enhanced products and acquisitions. These changes may result in a temporary lack of focus or productivity or otherwise impact our business.

To manage our growth, we may need to improve our operational, financial and management systems and processes which may require significant capital expenditures and allocation of valuable management and employee resources. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, including employees in international markets, while maintaining the beneficial aspects of our company culture. If we do not manage the growth of our business and operations effectively, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

We are regularly subject to claims, suits, government investigations, and other proceedings that may result in adverse outcomes.

We are regularly subject to claims, suits, government investigations and other proceedings involving competition, intellectual property, privacy and data protection, consumer protection, tax, labor and employment, commercial disputes, content generated by our users, free speech issues, goods and services offered by advertisers or publishers using our platforms, and other matters. In addition, our businesses face intellectual property litigation that exposes us to the risk of exclusion and cease and desist orders, which could limit our ability to sell products and services.

Such claims, suits, government investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, any of these types of legal proceedings can have an adverse impact on us because of legal costs, diversion of management resources, injunctions or damage awards and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that requires significant judgment. It is possible that a resolution of one or more such proceedings could result in substantial fines and penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, requiring a change in our business practices or other field action, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could adversely affect our business and results of operations.

Our international operations involve additional risks and our exposure to these risks increases as our business continues to expand globally.

We operate in a number of jurisdictions outside of the United States and continue to expand our international operations. Many of these regions have different economic conditions, languages, currencies, consumer expectations, levels of consumer acceptance and use of the internet for commerce, legislation, regulatory environments (including labor laws and customs), tax laws and levels of political stability. We are subject to associated risks typical of international businesses, including, but not limited to, the following:

- Local economic or political instability;
- Threatened or actual acts of terrorism;
- Compliance with additional laws applicable to companies operating internationally as well as local laws and regulations, including the Foreign Corrupt Practices Act and U.K. Bribery Act, data privacy requirements, labor and employment law, laws regarding advertisements and promotions and anti-competition regulations;
- Diminished ability to legally enforce contractual rights;
- Increased risk and limits on enforceability of intellectual property rights;

- Restrictions on, or adverse consequences related to, the withdrawal of non-U.S. investment and earnings;
- Restrictions on repatriation of cash as well as restrictions on investments in operations in certain countries;
- Financial risk arising from transactions in multiple currencies as well as foreign currency exchange restrictions;
- Slower adoption of the internet as an advertising, broadcast and commerce medium in certain of those markets as compared to the United States;
- Difficulties in managing staff and operations due to distance, time zones, language and cultural differences; and
- Uncertainty regarding liability for services, content and intellectual property rights, including uncertainty as a result of local laws and lack of precedent.

We have a business operating in China, which creates particular risks and uncertainties relating to the laws in China. The laws and regulations of China restrict foreign investment in areas including air-ticketing and travel agency services, internet content provision, mobile communication and related businesses. Although we have established effective control of our Chinese business through a series of agreements, future developments in the interpretation or enforcement of Chinese laws and regulations or a dispute relating to these agreements could restrict our ability to operate or restructure this business or to engage in strategic transactions. The success of this business, and of any future investments in China, is subject to risks and uncertainties regarding the application, development and interpretation of China's laws and regulations.

Furthermore, we are also accumulating a greater portion of our cash flows in foreign jurisdictions, which we consider indefinitely reinvested. The repatriation of such funds for use in the United States, including for corporate purposes such as acquisitions, stock repurchases, dividends or debt refinancings, may result in additional U.S. income tax expense and higher cost for such capital.

A failure to comply with current laws, rules and regulations or changes to such laws, rules and regulations and other legal uncertainties may adversely affect our business or financial performance.

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to us and our business, including those relating to the internet and online commerce, internet advertising and online commerce, consumer protection, data security and privacy, travel and vacation rental licensing and listing requirements and tax. In some cases, these laws continue to evolve.

For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and online commerce that may relate to liability for information retrieved from or transmitted over the internet, online editorial and user-generated content, user privacy, data security, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of products and services. In addition, enforcement authorities in the United States continue to rely on their authority under existing consumer protection laws to take action against companies relating to data privacy and security practices. The growth and development of online commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

Further, our vacation rentals business has been and continues to be subject to regulatory developments that affect the vacation rental industry and the ability of competitors like us to list those vacation rentals online. For example, some states and local jurisdictions have adopted or are considering adopting statutes or ordinances that prohibit property owners and managers from renting certain properties for fewer than 30 consecutive days. Some states and local jurisdictions also have fair housing or other laws governing whether and how properties may be rented, which they assert apply to vacation rentals. Many homeowners, condominium and neighborhood associations have adopted rules that prohibit or restrict short-term vacation rentals.

We also have been subject, and we will likely be subject in the future, to inquiries from time to time from regulatory bodies concerning compliance with consumer protection, competition, tax and travel industry-specific laws and regulations. The failure of our businesses to comply with these laws and regulations could result in fines and/or proceedings against us by governmental agencies and/or consumers, which if material, could adversely affect our business, financial condition and results of operations. Further, if such laws and regulations are not enforced equally against other competitors in a particular market, our compliance with such laws may put us a competitive disadvantage vis-à-vis competitors who do not comply with such requirements.

The promulgation of new laws, rules and regulations, or the new interpretation of existing laws, rules and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we provide services could require us to change certain aspects of our business, operations and commercial relationships to ensure compliance, which could decrease demand for services, reduce revenues, increase costs and/or subject the company to additional liabilities. Unfavorable changes could decrease demand for products and services, limit marketing methods and capabilities, increase costs and/or subject us to additional liabilities. Violations of these laws and regulations could result in fines and/or criminal sanctions against us, our officers or our employees and/or prohibitions on the conduct of our business.

We cannot be sure that our intellectual property is protected from copying or use by others, including potential competitors.

Our websites rely on content, brands and technology, much of which is proprietary. We protect our proprietary content, brands and technology by relying on a combination of trademarks, copyrights, trade secrets, patents and confidentiality agreements. Any misappropriation or violation of our rights could have a material adverse effect on our business. Even with these precautions, it may be possible for another party to copy or otherwise obtain and use our proprietary technology, content or brands without authorization or to develop similar technology, content or brands independently.

Effective intellectual property protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and expenses and the costs of defending our rights. In addition, effective intellectual property protection may not be available in every jurisdiction in which our services are made available, and policing unauthorized use of our intellectual property is difficult and expensive. Therefore, in certain jurisdictions, we may be unable to protect our intellectual property adequately against unauthorized third-party copying or use, which could adversely affect our business or ability to compete. We cannot be sure that the steps we have taken will prevent misappropriation or infringement of our intellectual property. Furthermore, we may need to go to court or other tribunals or administrative bodies in order to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. These proceedings might result in substantial costs and diversion of resources and management attention. Our failure to protect our intellectual property in a cost-effective or effective manner could have a material adverse effect on our business and ability to protect our technology, content and brands.

We currently license from third parties and incorporate the technologies and content into our websites. As we continue to introduce new services that incorporate new technologies and content, we may be required to license additional technology, or content. We cannot be sure that such technology or content will be available on commercially reasonable terms, if at all.

Our processing, storage and use of personal information and other data exposes us to risks of external and internal security breaches and could give rise to liabilities.

We are subject to a variety of laws in the United States and abroad regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other consumer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. In addition, the security of data when engaging in electronic commerce is essential to maintaining consumer and travel service provider confidences in our services. The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet have recently come

under increased public scrutiny. The U.S. Congress and federal agencies, including the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection and use of information concerning consumer behavior on the internet. Various U.S. courts are also considering the applicability of existing federal and state statutes, including computer trespass and wiretapping laws, to the collection and exchange of information online. In addition, the European Union has adopted a new data protection legal framework, effective in May 2018, which may result in a greater compliance burden for companies, including us, with users in Europe and increased costs of compliance.

Potential security breaches to our systems, whether resulting from internal or external sources, could significantly harm our business. A party, whether internal or external, that is able to circumvent our security systems could misappropriate user information or proprietary information or cause significant interruptions in our operations. In the past, we have experienced “denial-of-service” type attacks on our systems that have made portions of our websites unavailable for short periods of time as well as unauthorized access of our systems and data. We also face risks associated with security breaches affecting third parties conducting business over the internet. Much of our business is conducted with third party marketing affiliates or, more recently, through business partners powering our instant booking feature. In addition, we frequently use third parties to process credit card payments. A security breach at such third party could be perceived by consumers as a security breach of our systems and could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such third parties may not comply with applicable disclosure requirements, which could expose us to liability.

We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. Any failure or perceived failure by us to comply with our privacy policies, privacy-related obligations to users or other third parties, or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements that could harm our reputation and cause our customers and members to lose trust in us, which could have an adverse effect on our business, brand, market share and results of operations. We may need to expend significant resources to protect against security breaches or to investigate and address problems caused by breaches, and reductions in website availability could cause a loss of substantial business volume during the occurrence of any such incident. Because the techniques used to sabotage security change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures. Security breaches could result in negative publicity, damage to reputation, exposure to risk of loss or litigation and possible liability due to regulatory penalties and sanctions. Security breaches could also cause travelers and potential users to lose confidence in our security, which would have a negative effect on the value of our brand. Failure to adequately protect against attacks or intrusions, whether for our own systems or systems of vendors, could expose us to security breaches that could have an adverse impact on financial performance.

We have acquired a number of companies over the years and may continue to do so in the future. While we make significant efforts to address any information technology security issues with respect to our acquisitions, we may still inherit such risks when we integrate the acquired businesses.

System interruption and the lack of redundancy in some of our internal information systems may harm our business.

We rely on computer systems to deliver content and services. We have experienced and may in the future experience system interruptions that make some or all of these systems unavailable or prevent us from efficiently providing content and services to users and third parties. Significant interruptions, outages or delays in internal systems, or systems of third parties that we rely upon, or deterioration in the performance of any such systems, would impair our ability to process transactions or display content and decrease the quality of the services we offer to travelers and users. These interruptions could include security intrusions and attacks on our systems for fraud or service interruption (called “denial of service” or “bot” attacks). Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, acts of God, computer viruses, electronic intrusion attempts from both external and internal sources and similar events or disruptions may damage or impact or interrupt

computer or communications systems or business processes at any time. If we experience frequent or persistent system failures, our reputation and brand could be permanently and significantly harmed.

Although we have put measures in place to protect certain portions of our facilities and assets, any of these events could cause system interruption, delays and loss of critical data, and could prevent us from providing content and services to users, travelers and/or third parties for a significant period of time. In addition, remediation may be costly and we may not have adequate insurance to cover such costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

On June 26, 2015, we entered into a new credit agreement with respect to a \$1 billion five-year revolving credit facility, or the “2015 Credit Facility.” This agreement includes restrictive covenants that may impact the way we manage our business and may limit our ability to secure significant additional financing in the future on favorable terms. Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to then prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. In light of periodic uncertainty in the capital and credit markets, there can be no assurance that sufficient financing will be available on desirable or even any terms to fund investments, acquisitions, stock repurchases, dividends, debt refinancing or extraordinary actions or that counterparties in any such financings would honor their contractual commitments.

We have indebtedness which could adversely affect our business and financial condition.

We currently have outstanding \$91 million in long-term debt. Risks relating to our indebtedness include:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Requiring us to dedicate a portion of our cash flow from operations to principal and interest payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- Making it more difficult for us to optimally capitalize and manage the cash flow for our businesses;
- Limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;
- Possibly placing us at a competitive disadvantage compared to our competitors that have less debt;
- Limiting our ability to borrow additional funds or to borrow funds at rates or on other terms that we find acceptable; and
- Exposing us to the risk of increased interest rates because our outstanding debt is expected to be subject to variable rates of interest.

In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our 2015 Credit Facility allow us to incur additional debt subject to certain limitations; however, there is no assurance that additional financing will be available to us on terms favorable to us, if at all. In addition, if new debt is added to current debt levels, the risks described above could intensify.

Our 2015 Credit Facility provides for various provisions that limit our discretion in the operation of our business and require us to meet financial maintenance tests and other covenants and the failure to comply with their covenants could have a material adverse effect on us.

We are party to a credit agreement providing for our 2015 Credit Facility. The agreements that govern the 2015 Credit Facility contain various covenants, including those that limit our ability to, among other things:

- Incur indebtedness;
- Pay dividends on, redeem or repurchase our capital stock;
- Enter into certain asset sale transactions, including partial or full spin-off transactions;
- Enter into secured financing arrangements;
- Enter into sale and leaseback transactions; and
- Enter into unrelated businesses.

These covenants may limit our ability to optimally operate our business. In addition, our 2015 Credit Facility requires that we meet certain financial tests, including a leverage ratio test. Any failure to comply with the restrictions of our credit facility may result in an event of default under the agreements governing such facilities. Such default may allow the creditors to accelerate the debt incurred thereunder. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds (including periodic rollovers of existing borrowings).

Our effective tax rate is impacted by a number of factors that could have a material impact on our financial results and could increase the volatility of those results.

Due to the global nature of our business, we are subject to income taxes in the United States and other foreign jurisdictions. In the event we incur net income in certain jurisdictions but incur losses in other jurisdictions, we generally cannot offset the income from one jurisdiction with the loss from another, which could increase our effective tax rate. Furthermore, significant judgment is required to calculate our worldwide provision for income taxes and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. In the ordinary course of our business there are many transactions and calculations where the ultimate tax determination is uncertain.

We believe our tax estimates are reasonable. However, we are routinely under audit by federal, state and foreign taxing authorities. The taxing authorities of jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business does not achieve the intended tax consequences, which would increase our effective tax rate and harm our financial position and results of operations. As we operate in numerous taxing jurisdictions, the application of tax laws can also be subject to diverging and sometimes conflicting interpretations by taxing authorities of these jurisdictions. It is not uncommon for taxing authorities of different countries to have conflicting views, for instance, with respect to, among other things, the manner in which the arm's length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property. The final determination of audits could be materially different from our income tax provisions and accruals and could have a material effect on our financial position, results of operations, or cash flows in the period or periods for which that determination is made.

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flow, 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.

Changes in tax laws or tax rulings, or the examination of our tax positions, could materially affect our financial position and results of operations.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Our existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. However, the tax benefits that we intend to eventually derive could be undermined due to changing tax laws. In particular, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority, resulting in uncertainty not only with respect to the future corporate tax rate, but also the U.S. tax consequences of income derived from income related to intellectual property earned overseas in low tax jurisdictions. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could affect the tax treatment of our foreign earnings.

In addition, the taxing authorities in the United States and other jurisdictions where we do business regularly examine our income and other tax returns as well as the tax returns of Expedia, our former parent. The ultimate outcome of these examinations (including the IRS audit described below) cannot be predicted with certainty. Should the IRS or other taxing authorities assess additional taxes as a result of examinations, we may be required to record charges to our operations, which could harm our business, operating results and financial condition.

In connection with the Spin-Off, we could be subject to significant tax liabilities.

Under the Tax Sharing Agreement between us and Expedia entered into in connection with the Spin-Off, we are generally required to indemnify Expedia for any taxes resulting from the Spin-Off (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts resulted from (i) any act or failure to act by us described in the covenants in the tax sharing agreement, (ii) any acquisition of our equity securities or assets or those of a member of our group, or (iii) any failure of the representations with respect to us or any member of our group to be true or any breach by us or any member of our group of any covenant, in each case, which is contained in the separation documents or in the documents relating to the IRS private letter ruling and/or the opinion of counsel.

We continue to be responsible for potential tax liabilities in connection with consolidated income tax returns filed with Expedia prior to or in connection with the Spin-Off. By virtue of previously filed consolidated tax returns with Expedia, we are currently under an IRS audit for the 2009, 2010, and 2011 tax years. In connection with that audit, we received notices of proposed adjustment from the IRS for the 2009 and 2010 tax years in January 2017, which would result in an increase in our worldwide income tax expense. The proposed adjustments would result in an increase to our worldwide income tax expense in an estimated range of \$10 million to \$14 million after consideration of competent authority relief, exclusive of interest and penalties. We are also subject to various ongoing state income tax audits. The outcome of these matters or any other audits could subject us to significant tax liabilities.

We are subject to fluctuation in foreign currency exchange risk.

We conduct a significant and growing portion of our business outside the United States but report our results in U.S. dollars. As a result, we face exposure to movements in foreign currency exchange rates, particularly those related to the Euro, British pound sterling, and Australian dollar. These exposures include, but are not limited to re-measurement of gains and losses from changes in the value of foreign denominated assets and liabilities; translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars upon consolidation; and planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur.

Depending on the size of the exposures and the relative movements of exchange rates, if we were to choose not to hedge or were to fail to hedge effectively our exposure, we could experience a material adverse effect on our financial statements and financial condition. As seen in some recent periods, in the event of severe volatility in

exchange rates the impact of these exposures can increase, and the impact on results of operations can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures both more complex. We hedge certain short-term foreign currency exposures with the purchase of forward exchange contracts. These forward exchange contracts only help mitigate the impact of changes in foreign currency rates that occur during the term of the related contract period and carry risks of counter-party failure. There can be no assurance that our forward exchange contracts will have their intended effects.

Significant fluctuations in foreign currency exchange rates can affect consumer travel behavior. Volatility in foreign currency exchange rates and its impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

Liberty TripAdvisor Holdings, Inc. currently is a controlling stockholder.

Liberty TripAdvisor Holdings, Inc., or LTRIP, effectively controls the outcome of all matters submitted to a vote or for the consent of our stockholders (other than with respect to the election by the holders of our common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires separate class votes), including but not limited to, corporate transactions such as mergers, business combinations or dispositions of assets, the authorization or issuance of new equity or debt securities and determinations with respect to our business direction and policies. Our Chairman Greg Maffei and Director Albert Rosenthaler also serve as officers and directors of LTRIP. LTRIP, which has investments in other companies, may have interests that differ from those of our other stockholders and they may vote in a way with which our other stockholders may not agree or that may be adverse to other stockholders' interests. LTRIP is not restricted from investing in other businesses involving or related to our business. Liberty's control of us, as well as the existing provisions of our organizational documents and Delaware law, may discourage or prevent a change of control that might otherwise be beneficial, which may reduce the market price of our common stock.

We are currently relying on the "controlled company" exemption under NASDAQ Stock Market Listing Rules, pursuant to which "controlled companies" are exempt from certain corporate governance requirements otherwise applicable under NASDAQ listing rules.

The NASDAQ Stock Market Listing Rules exempt "controlled companies," or companies of which more than 50% of the voting power is held by an individual, a group or another company, from certain corporate governance requirements, including those requirements that:

- A majority of the Board of Directors consist of independent directors;
- Compensation of officers be determined or recommended to the Board of Directors by a majority of its independent directors or by a compensation committee comprised solely of independent directors; and
- Director nominees be selected or recommended to the Board of Directors by a majority of its independent directors or by a nominating committee that is composed entirely of independent directors.

We currently rely on the controlled company exemption for certain of the above requirements. Accordingly, our stockholders will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies with respect to corporate governance for so long as we rely on these exemptions from the corporate governance requirements.

If we are unable to successfully maintain effective internal control over financial reporting, investors may lose confidence in our reported financial information and our stock price and business may be adversely impacted.

As a public company, we are required to maintain internal control over financial reporting and our management is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year. Additionally, we are required to disclose in our Annual Reports on Form 10-K our management's

assessment of the effectiveness of our internal control over financial reporting and a registered public accounting firm's attestation report on this assessment. If we are not successful in maintaining effective internal control over financial reporting, there could be inaccuracies or omissions in the consolidated financial information we are required to file with the SEC. Additionally, even if there are no inaccuracies or omissions, we could be required to publicly disclose the conclusion of our management that our internal control over financial reporting or disclosure controls and procedures are not effective. These events could cause investors to lose confidence in our reported financial information, adversely impact our stock price, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits that could be costly to resolve and distract management's attention, limit our ability to access the capital markets or cause our stock to be delisted from NASDAQ or any other securities exchange on which we are then listed.

The market price and trading volume of our common stock may be volatile and may face negative pressure.

Our stock price has experienced, and could continue to experience in the future, substantial volatility. The market price of our common stock is affected by a number of factors, including the risk factors described in this section and other factors beyond our control. Factors affecting the trading price of our common stock could include:

- Quarterly variations in our or our competitors' results of operations;
- Changes in earnings estimates or recommendations by securities analysts;
- Failure to meet market expectations;
- The announcement of new products or product enhancements by us or our competitors;
- Repurchases of our common stock pursuant to our share repurchase program which could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock;
- Developments in our industry, including changes in governmental regulations; and
- General market conditions and other factors, including factors related to our operating performance or the operating performance of our competitors.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations and general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock regardless of our actual operating performance.

Future sales of shares of our common stock in the public market, or the perception that such sales may occur, may depress our stock price.

For the period ended December 31, 2016, the average daily trading volume of our common stock on NASDAQ was approximately 2.2 million shares. If our existing stockholders or their distributees sell substantial amounts of our common stock in the public market, the market price of the common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of common stock could also depress the trading price of our common stock. In addition, certain stockholders have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If LTRIP or some other stockholder sells substantial amounts of our common stock in the public market, or if there is a perception in the public market that LTRIP might sell shares of our common stock, the market price of our common stock could decrease significantly. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our certificate of incorporation and bylaws contain provisions that could delay or prevent a change of control of our company or changes in our Board of Directors that our stockholders might consider favorable. These provisions include:

- Authorization and issuance of Class B common stock that entitles holders to ten votes per share;
- Authorization of the issuance of preferred stock which can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of our common stock;
- Prohibiting our stockholders from filling board vacancies or calling special stockholder meetings; and
- Limiting who may call special meetings of stockholders.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease approximately 280,000 square feet for our corporate headquarters in Needham, Massachusetts, pursuant to a lease with an expiration date of December 2030, with an option to extend the lease term for two consecutive terms of five years each. Refer to “Note 13— *Commitments and Contingencies*” in the notes to our consolidated financial statements in this Annual Report on Form 10-K for further information on our corporate headquarters.

We also lease an aggregate of approximately 465,000 square feet at approximately 40 other locations across North America, Europe and Asia Pacific, including New York, Boston, London, Sydney, Barcelona, Paris, and Beijing, primarily for our sales offices, subsidiary headquarters, and international management teams, pursuant to leases with various expiration dates, with the latest expiring in June 2027. We believe that our current facilities are adequate for our current operations and that additional leased space can be obtained on reasonable terms if needed. We do not legally own any real estate as of December 31, 2016.

Item 3. Legal Proceedings

In the ordinary course of business, we are parties to legal proceedings and claims involving alleged infringement of third-party intellectual property rights, defamation, taxes, regulatory compliance and other claims. Rules and regulations promulgated by the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant’s business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that we are defending involves or is likely to involve amounts of that magnitude. 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.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted on NASDAQ under the ticker symbol "TRIP." On February 10, 2017, the closing price of our common stock reported on NASDAQ was \$52.00 per share. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on NASDAQ during the period indicated.

	High		Low	
Year ended December 31, 2016:				
Fourth Quarter:	\$	66.13	\$	45.63
Third Quarter:	\$	71.69	\$	59.72
Second Quarter:	\$	71.61	\$	58.96
First Quarter:	\$	83.97	\$	53.48
Year ended December 31, 2015:				
Fourth Quarter:	\$	87.50	\$	63.00
Third Quarter:	\$	94.00	\$	62.24
Second Quarter:	\$	92.00	\$	74.14
First Quarter:	\$	91.47	\$	66.04

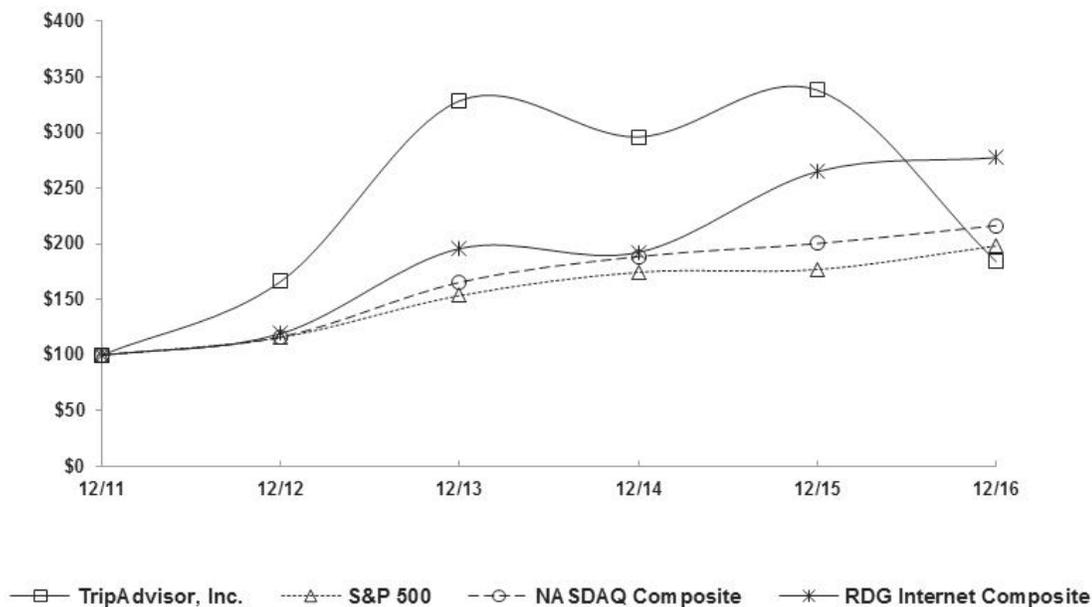
Our Class B common stock is not listed and there is no established public trading market for that security. As of February 10, 2017, all of our Class B common stock was held by LTRIP.

Performance Comparison Graph

The following graph provides a comparison of the total stockholder return from December 21, 2011 to December 31, 2016 of an investment of \$100 in cash on December 21, 2011 for TripAdvisor, Inc. common stock and an investment of \$100 in cash on November 30, 2011 for (i) the Standard and Poor's 500 Index (the "S&P 500 Index"), (ii) the NASDAQ Composite Index, and (iii) the Research Data Group ("RDG") Internet Composite Index. The RDG Internet Composite Index is an index of stocks representing the internet industry, including internet software and service companies and e-commerce companies. The stock price performance shown on the graph below is not necessarily indicative of future price performance. Data for the S&P 500 Index, the NASDAQ Composite Index, and the RDG Internet Composite Index assume reinvestment of dividends. We have never paid dividends on our common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among TripAdvisor, Inc., the S&P 500 Index,
the NASDAQ Composite Index and the RDG Internet Composite Index



*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Copyright© 2017 Standard & Poor's, a division of S&P Global. All rights reserved.

This performance comparison graph is not "soliciting material," is not deemed filed with the Securities and Exchange Commission and is not deemed to be incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing of TripAdvisor, Inc. under the Securities Act of 1933, as amended (the "Securities Act"), or any filing under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that we specifically request that the information be treated as soliciting material or specifically incorporate this information by reference into any such filing, and will not otherwise be deemed incorporated by reference into any other filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference.

Holders of Record

As of February 10, 2017, there were 131,359,879 outstanding shares of our common stock held by 2,561 stockholders of record, and 12,799,999 outstanding shares of our Class B common stock held by one stockholder of record: LTRIP.

Dividends

We have never declared or paid dividends and do not expect to pay any dividends for the foreseeable future. Our ability to pay dividends is limited by the terms of our 2015 Credit Facility. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – 2015 Credit Facility” for additional information regarding this revolving credit facility. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our Board of Directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our Board of Directors may deem relevant.

Unregistered Sales of Equity Securities

During the year ended December 31, 2016, we did not issue or sell any shares of our common stock, Class B common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act.

Issuer Purchases of Equity Securities

In February 2013, we announced that our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a share repurchase program. During the three months ended December 31, 2016, we repurchased 1,651,957 shares of outstanding common stock under the share repurchase program at an average price of \$50.76 per share. Below is a summary of information about our purchases of equity recently during the fourth quarter of 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate U.S. dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31	—	—	—	\$ 83,808,163
November 1 to November 30	1,651,957	\$ 50.76	1,651,957	\$ —
December 1 to December 31	—	—	—	\$ —
Total	<u>1,651,957</u>		<u>1,651,957</u>	

(1) These amounts include fees and commissions associated with the share repurchase.

As of December 31, 2016, we have repurchased a total of 4,123,065 shares of outstanding common stock under the share repurchase program at an average price of \$60.63 per share and have completed our share repurchase program authorized by our Board of Directors. See “Note 15 —*Stockholders’ Equity*” in the notes to the consolidated financial statements in Item 8 for additional information regarding our treasury shares.

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. The repurchase program has no expiration but may

be suspended or terminated by the Board of Directors at any time. The Executive Committee of our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders

Equity Compensation Plan Information

Our equity plan information required by this item is incorporated by reference to the information in Part III, Item 12, of this Annual Report on Form 10-K.

Item 6. Selected Financial Data

We have derived the following selected financial data presented below from our consolidated financial statements and related notes. The information set forth below is not necessarily indicative of future results and should be read in conjunction with the consolidated financial statements and related notes appearing in Item 8 “Financial Statements and Supplementary Data,” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
(in millions, except per share data)					
Consolidated Statements of Operations Data:					
Revenue	\$ 1,480	\$ 1,492	\$ 1,246	\$ 945	\$ 763
Operating income (1)	166	232	340	294	296
Net Income	120	198	226	205	195
Net income attributable to TripAdvisor, Inc.	120	198	226	205	194
Earnings per share attributable to common stockholders:					
Basic (2)	\$ 0.83	\$ 1.38	\$ 1.58	\$ 1.44	\$ 1.39
Diluted (2)	0.82	1.36	1.55	1.41	1.37
Shares used in computing net income per share:					
Basic (2)	145	144	143	143	139
Diluted (2)	147	146	146	145	141

	December 31,				
	2016	2015	2014	2013	2012
(in millions)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents, short and long term marketable securities	\$ 746	\$ 698	\$ 594	\$ 670	\$ 586
Working capital (3)	527	553	356	387	437
Total assets	2,238	2,128	1,948	1,473	1,299
Long-term debt, less current portion (4)	91	200	259	300	340
Other long-term obligations under financing obligation	84	84	67	8	—
Total stockholders’ equity (5)	1,502	1,412	1,125	865	727

- (1) Includes a non-cash charitable contribution to The TripAdvisor Charitable Foundation (the “Foundation”) of \$67 million for the year ended December 31, 2015. In comparison, charitable contributions to the Foundation, which were paid in cash, were \$8 million, \$7 million and \$7 million for the years ended December 31, 2014, 2013, and 2012, respectively. There were no charitable contributions made to the Foundation for the year ended December 31, 2016, and the Company does not expect to make any future contributions to the Foundation. See “Note 17 — Segments and Geographic Information” in the notes to the consolidated financial statements in Item 8 for further information regarding this charitable contribution.
- (2) See “Note 5 — Earnings per Share” in the notes to the consolidated financial statements in Item 8 for further information regarding our calculation of earnings per share numbers.

- (3) Amount does not include available for sale long-term marketable securities of \$16 million, \$37 million, \$31 million, \$188 million, and \$99 million, as of December 31, 2016, 2015, 2014, 2013, and 2012, respectively.
- (4) See “Note 9— *Debt*” in the notes to the consolidated financial statements in Item 8 for information regarding our long-term debt.
- (5) See our consolidated statements of changes in stockholders’ equity and “Note 15— *Stockholders’ Equity*” in the notes to the consolidated financial statements in Item 8 for additional information on changes to our stockholders’ equity.

Item 7. Management’s Discussion and Analysis of Financial Condition 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 travelers’ 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 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 nearly 390 million average monthly unique visitors in our seasonal peak during the year ended December 31, 2016, according to our internal log files. We currently feature 465 million reviews and opinions on 7 million places to stay, places to eat and things to do – including 1,060,000 hotels and accommodations and 835,000 vacation rentals, 4.3 million restaurants and 760,000 activities and attractions worldwide.

In addition to the flagship TripAdvisor brand, we manage and operate 23 other travel media brands, connected by the common goal of providing users the most comprehensive travel-planning and trip-taking resources in the travel industry. For additional information about our portfolio of brands and our business model, see the disclosure set forth in Part I, Item 1, Business, under the caption “Overview.”

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. Financial information and additional descriptive information related to our segments and geographic information is contained in “Note 17 — *Segment and Geographic Information*,” in the notes to our consolidated financial statements in Item 8 and below.

Executive Financial Summary and Trends

As the largest online travel platform, we believe we are an attractive marketing channel for advertisers—including hotel chains, independent hoteliers, 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 are also a booking platform offering users the ability to book hotels, flights, cruises, vacation rentals, tours, activities and attractions, and restaurants directly on our website. The key drivers of our financial results are described below, including a summary of our key financial results, business metrics, and current trends affecting our business, and our segment information.

Below are our key financial results and business metrics for the year ended December 31, 2016 (consolidated unless otherwise noted):

Financial results

- Revenue of \$1,480 million, a decrease of 1% year over year.
- Hotel segment revenue of \$1,190 million, a decrease of 6% year over year and Non-Hotel segment revenues of \$290 million, an increase of 27% year over year.
- Revenue from North America, EMEA, APAC and LATAM was \$830 million, \$454 million, \$144 million and \$52 million, respectively.
- Total costs and expenses were \$1,314 million.

- Operating income was \$166 million.
- Effective tax rate of 20.5%.
- Net income of \$120 million, or diluted earnings per share of \$0.82.
- Operating cash flow was \$321 million.
- Capital expenditures were \$72 million.
- Cash and cash equivalents, and short and long term available-for-sale marketable securities were \$746 million as of December 31, 2016.
- Headcount was 3,327 as of December 31, 2016.

Business Metrics

- Revenue per hotel shopper decreased 15% year over year.
- Average unique monthly hotel shoppers increased 6% year over year.

Current Trends in Our Business

Hotel Segment

In our hotel segment, we have invested significant time and resources towards enabling users to book hotels on our sites and applications through our instant booking feature. We began with the accelerated rollout in our two largest markets – the United States and the United Kingdom – in the third quarter of 2015, and completed an accelerated and staged global rollout of this feature to all of our markets during the first half of 2016. During the year, the instant booking feature has monetized at a lower revenue per hotel shopper rate than our metasearch feature, and therefore has been dilutive to our TripAdvisor-branded click-based and transaction revenue growth and to our overall revenue per hotel shopper. However, in the second half of 2016, TripAdvisor-branded click-based and transaction revenue growth rates improved as we lapped the instant booking rollout in the United States, our largest market, increased spend in our online paid marketing channels, and made product enhancements throughout the year. In addition, the majority of our instant booking revenue is recorded under the consumption model and is recognized at the time the traveler consumes, or completes, the stay. Comparatively, revenue recognized under our metasearch feature is recorded when a traveler makes the click-through to the travel partners' websites. In future periods, greater contribution from our instant booking consumption model to TripAdvisor-branded click-based and transaction revenue could result in additional revenue recognized at the time of a consumed stay and therefore a shift in the timing of our revenue recognition.

During 2016, we continued to improve our hotel shopping experience, which included an improved display of our metasearch and instant booking features to hotel shoppers, as well as improving booking transaction acumen, which includes improving the on-site experience by offering the best price value proposition, improving room-level content, optimizing the room selection and booking path, and on-boarding more partners with strong branding and supply channels in order to achieve increased initial and repeat bookings. We have continued to explore and develop additional opportunities to engage users with our booking capabilities through online and offline marketing. We now offer users an end-to-end hotel shopping experience, which we believe has improved the hotel shopping experience, as well as educated users about our more comprehensive offering, which we believe will enable us to drive more conversions of hotel shoppers to bookings, ultimately resulting in higher bookings for our partners and higher revenue per hotel shopper on our platform.

In 2016, hotel shopper growth slowed due to a number of factors, including lower revenue per hotel shopper impacting our advertising expenditure, macroeconomic and geopolitical factors, a continued intense competitive environment, and other travel market dynamics. One of our key strategic objectives is to grow our brand awareness and grow the number of hotel shoppers on our platforms. We continue to leverage a number of marketing channels, both paid and unpaid, to achieve this objective, including online efforts such as SEM, social media, and email campaigns, as well as offline efforts such as permanent branding campaigns (TripAdvisor-branded travel awards, certificates, stickers and badges). Over time, the traffic visiting our websites and applications from paid marketing

channels has generally grown faster than traffic from unpaid sources due to competition from other travel companies and search engines and we may see a continuation of this trend.

In 2016, hotel shoppers that visited our websites and applications on mobile phone continued to grow significantly faster than traffic from desktop and tablet devices. As a result, this has contributed to a decline in revenue per hotel shopper and our click-based and transaction revenue, as mobile phone devices monetize significantly less than desktop and tablet. This is due to a number of factors, including the fact that mobile phone is still in the early stages of eCommerce adoption, our partners reduced ability to attribute booking behavior on their websites and applications back to TripAdvisor, limited advertising opportunities on smaller screen devices, lower cost-per-click, lower booking intent, and lower average gross booking value based on consumer purchasing patterns. Mobile phone product development continues to be an area of strategic growth and investment, and we will continue to invest and innovate in this growing platform in order to increase our user base, engagement and monetization over the long term.

As a global travel business specializing in discretionary leisure travel, we believe our 2016 hotel shopper growth, revenue per hotel shopper and Hotel segment financial performance also was negatively impacted by macroeconomic and geopolitical dynamics, including foreign currency and a number of terrorism events, among other factors.

Non-Hotel Segment

TripAdvisor's end-to-end user experience extends beyond our hotel business. In 2016, unique monthly users to non-hotel pages on our websites and applications – including attractions, restaurants, and vacation rentals – continued to grow. In efforts to address this growing demand and engagement with these products we have strategically invested in improving the user experience on all devices as well as in building our inventory of global supply of bookable attractions, restaurants, and vacation rentals. In addition to achieving strong supply growth, during 2016 we drove increased mobile engagement and mobile bookings with new mobile ticketing capabilities and mobile push notifications, including in-destination suggestions on the best things to do, helpful tips on the best nearby restaurants, and popular dish recommendations. Continued successful execution of our key growth strategies resulted in 27% revenue growth in this segment in 2016, when compared to the same period in 2015. Increasing traffic to and engagement with our Non-Hotel business, as well as increasing our global supply to offer users more choice are ongoing strategic objectives.

Results of Operations
Selected Financial Data
(in millions, except per share data and percentages)

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenue	\$ 1,480	\$ 1,492	\$ 1,246	(1)%	20%
Costs and expenses:					
Cost of revenue	71	58	40	22%	45%
Selling and marketing	756	692	502	9%	38%
Technology and content	243	207	171	17%	21%
General and administrative	143	210	128	(32)%	64%
Depreciation	69	57	47	21%	21%
Amortization of intangible assets	32	36	18	(11)%	100%
Total costs and expenses	1,314	1,260	906	4%	39%
Operating income	166	232	340	(28)%	(32)%
Other income (expense):					
Interest expense	(12)	(10)	(9)	20%	11%
Interest income and other, net	(3)	17	(9)	118%	(289)%
Total other income (expense), net	(15)	7	(18)	314%	(139)%
Income before income taxes	151	239	322	(37)%	(26)%
Provision for income taxes	(31)	(41)	(96)	(24)%	(57)%
Net income	<u>\$ 120</u>	<u>\$ 198</u>	<u>\$ 226</u>	(39)%	(12)%
Earnings per share attributable to common stockholders:					
Basic	\$ 0.83	\$ 1.38	\$ 1.58	(40)%	(13)%
Diluted	\$ 0.82	\$ 1.36	\$ 1.55	(40)%	(12)%
Weighted average common shares outstanding:					
Basic	145	144	143	1%	1%
Diluted	147	146	146	1%	0%
Other financial data:					
Adjusted EBITDA (1)	\$ 352	\$ 466	\$ 468	(24)%	0%

(1) Adjusted EBITDA is a non-GAAP measure. See “Adjusted EBITDA” discussion below for more information.

Consolidated Revenue and Segments

Revenue and Segment Information

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenue by Segment:	(in millions)				
Hotel	\$1,190	\$1,263	\$1,135	(6)%	11%
Non-Hotel	290	229	111	27%	106%
Total revenue	<u>\$1,480</u>	<u>\$1,492</u>	<u>\$1,246</u>	(1)%	20%
Adjusted EBITDA by Segment (1):					
Hotel	\$ 380	\$ 472	\$ 472	(19)%	0%
Non-Hotel	(28)	(6)	(4)	(367)%	(50)%
Adjusted EBITDA Margin by Segment (2):					
Hotel	32%	37%	42%		
Non-Hotel	(10)%	(3)%	(4)%		

- (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 17 — Segment and Geographic Information," in the notes to our consolidated financial statements in Item 8 for more information and for a reconciliation of Adjusted EBITDA to net income, for the periods presented above.
- (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 \$73 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to a \$87 million decrease in TripAdvisor-branded click-based and transaction revenue, which is primarily due to a decline in revenue per hotel shopper of 15%, partially offset by a 6% increase in average unique monthly hotel shoppers, partially offset by growth of \$10 million in TripAdvisor-branded display-based advertising and subscription revenue, and \$4 million in other hotel revenue. Our Hotel segment revenue increased \$128 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to a \$73 million increase in TripAdvisor-branded click-based and transaction revenue, which is primarily due to an increase in average unique monthly hotel shoppers of 15% partially offset by a 4% decrease in revenue per hotel shopper, a \$39 million increase in TripAdvisor-branded display-based advertising and subscription revenue, and \$16 million increase in other hotel revenue. See below for discussion of these revenue sources within our Hotel segment.

Adjusted EBITDA in our Hotel segment decreased \$92 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to a decrease in Hotel segment revenue and increased operating costs, primarily driven by an increase in online traffic acquisition costs, partially offset by lower television advertising costs due to the cessation of our television advertising campaign in 2016. Our Hotel segment adjusted EBITDA margin also decelerated during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to an overall decrease in Hotel segment revenue, and to a lesser extent an increase in operating costs. Adjusted EBITDA in our Hotel Segment was flat for the year ended December 31, 2015 when compared to the same period in 2014, due to an increase in revenue, offset by increased operating costs, primarily driven by increased personnel and overhead costs, online traffic acquisition costs, and television advertising. Our Hotel

segment adjusted EBITDA margin also decelerated during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to the deceleration in revenue growth year over year.

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Hotel:	(in millions)				
TripAdvisor-branded click-based and transaction	\$ 750	\$ 837	\$ 764	(10%)	10%
TripAdvisor-branded display-based advertising and Subscription	282	272	233	4%	17%
Other hotel revenue	158	154	138	3%	12%
Total Hotel revenue	<u>\$ 1,190</u>	<u>\$ 1,263</u>	<u>\$ 1,135</u>	(6%)	11%

TripAdvisor-branded Click-based and Transaction Revenue

TripAdvisor-branded click-based and transaction revenue includes click-based advertising revenue (or revenue derived from our metasearch auction) from our TripAdvisor-branded websites and revenue from our transaction-based instant booking feature. For the years ended December 31, 2016, 2015 and 2014, 63%, 66% and 67%, 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 decreased \$87 million during the year ended December 31, 2016, when compared to the same period in 2015, primarily due to a decline of 15% in revenue per hotel shopper, offset by an increase in average monthly unique hotel shoppers of 6% during the year ended December 31, 2016. TripAdvisor-branded click-based and transaction revenue increased \$73 million during the year ended December 31, 2015, when compared to the same period in 2014, primarily due to an increase in average monthly unique hotel shoppers of 15%, offset by a decline of 4% in revenue per hotel shopper during the year ended December 31, 2015.

Our largest source of Hotel segment revenue is click-based advertising revenue from our TripAdvisor-branded websites, which includes links to our partners' sites and contextually-relevant branded and related text links. Click-based advertising is generated primarily through our metasearch auction, a description of which follows. Our click-based advertising partners are predominantly 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 based on the number of users who click on each type of link, or in other words a conversion of a hotel shopper to a paid click. CPC is the price that partners are willing to pay 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. This process is called our metasearch auction. When a partner submits a CPC bid, they are agreeing to pay the amount of that bid each time a user subsequently clicks on the link to the partner's website. Bids can be submitted periodically – as often as daily – on a property-by-property basis. The size of the bid relative to other bids received is the primary factor used to determine the placement of partner links on our site, including on hotel comparison search results and on property detail pages. CPCs are generally lower in markets outside the U.S., than in the U.S. market, and, in addition, hotel shoppers visiting via mobile phones currently monetize at a significantly lower rate than hotel shoppers visiting via desktop or tablet.

Our transaction revenue is comprised of revenue 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. Instant booking revenue is currently recognized under two different models: the transaction model and the consumption model. Our transaction model commission revenue is recorded at the time a traveler books a hotel reservation on our site with one of our transaction partners. Our transaction partners are liable for commission payments to us upon booking and the partner assumes the cancellation risk. When a traveler makes a hotel reservation on our site with one of our consumption partners, which comprises the majority of our instant booking revenue, revenue is not recorded until the traveler completes the stay as our consumption partners are liable for commission payment only upon the completion of stay by the traveler. OTA and hotel partner placement, as well as comparative hotel prices available to the traveler in the booking process under both models, are determined

by a bidding process within our proprietary automated bidding system, based on a number of variables, 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 the growth in average monthly unique hotel shoppers and, in particular, revenue per hotel shopper, which measures how effectively we convert our hotel shoppers into revenue. We measure performance by calculating revenue per hotel shopper on an aggregate basis, dividing total TripAdvisor-branded click-based and transaction revenue by total average monthly unique hotel shoppers on TripAdvisor-branded websites for the periods presented.

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

Our aggregate average monthly unique hotel shoppers on TripAdvisor-branded websites increased by 6% and 15%, respectively, for the years ended December 31, 2016 and 2015, when compared to the same periods in 2015 and 2014, according to our log files. The increase in hotel shoppers for the years ended December 31, 2016 and 2015, was primarily due to growth in our paid online marketing channels as well as the general trend of an increasing number of hotel shoppers visiting our websites and apps on mobile phones, which has grown significantly faster than traffic from desktop and tablet devices during these periods. Our average monthly unique hotel shopper growth rate decelerated during the year ended December 31, 2016, when compared to the same period in 2015, due to the dilutive effects from the global launch of our instant booking product feature, which impacted 2016 to a greater extent than 2015 due to the timing of the staged rollout, increased competition, macroeconomic and geopolitical factors, including foreign currency and a number of terrorism events, among other factors. While increasing the absolute number of hotel shoppers on our sites remains a top strategic priority, our ability to grow through paid traffic channels has been negatively impacted by lower revenue per hotel shopper.

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(in millions)				
Revenue per hotel shopper:					
TripAdvisor-branded click-based and transaction revenue	\$ 750	\$ 837	\$ 764	(10%)	10%
Divided by: Total average unique monthly hotel shoppers for the year	1,645	1,555	1,357	6%	15%
	<u>\$ 0.46</u>	<u>\$ 0.54</u>	<u>\$ 0.56</u>	(15%)	(4%)

Our overall revenue per hotel shopper decreased 15% and 4%, during the years ended December 31, 2016 and 2015, respectively, when compared to the same periods in 2015 and 2014, according to our log files. We believe the primary drivers of this decrease include the dilutive effects from our global launch of our instant booking product feature, which impacted 2016 to a greater extent than 2015 due to the timing of the staged rollout, a greater percentage of hotel shoppers visiting TripAdvisor websites and apps via mobile phones, in addition to, challenging metasearch comparatives in early 2016 relative to the same periods in 2015, increased competition, macroeconomic and geopolitical factors, including foreign currency and a number of terrorism events, among other factors.

TripAdvisor-branded Display-based Advertising and Subscription Revenue

For the years ended December 31, 2016, 2015 and 2014, 24%, 22% and 21%, respectively, of our Hotel segment revenue was derived from our TripAdvisor-branded display based advertising and subscription revenue, which primarily consists of revenue from display-based advertising and subscription-based hotel advertising revenue (or Business Advantage, formerly Business Listings). Our TripAdvisor-branded display-based advertising and subscription revenue increased by \$10 million or 4%, and \$39 million or 17%, during the years ended December 31, 2016 and 2015, respectively, when compared to the same periods in 2015 and 2014. Display-based advertising revenue and subscription revenue each grew at comparable rates during these periods.

2016 vs. 2015

The increase in display-based advertising revenue was primarily due to a slight increase in pricing, as well as impressions sold during the year, while the increase in subscription revenue was a result of increased sales productivity in 2015 which also benefitted 2016, as well as increased pricing and improvements in customer retention rates. The display-based advertising and subscription revenue growth rate decelerated during the year ended December 31, 2016, when compared to the same period in 2015, primarily due to the decline in the number of impressions sold for display-based advertising and lower sales productivity in 2016 for subscription revenue.

2015 vs. 2014

The increase in display-based advertising revenue was a result of an increase in the number of impressions sold, due to increased sales productivity, as well as increased sellable inventory due to traffic growth and introduction of new products and features, partially offset by a slight decrease in pricing, while the increase in subscription revenue was primarily related to increased sales productivity.

Other Hotel Revenue

For the years ended December 31, 2016, 2015 and 2014, 13%, 12% and 12%, respectively, of our Hotel segment revenue was derived from other hotel revenues. Our other hotel revenue primarily includes revenue from non-TripAdvisor branded websites, such as smartertravel.com, independenttraveler.com, and bookingbuddy.com, including click-based advertising revenue, display-based advertising revenue and room reservations sold through these websites. Our other hotel revenue increased by \$4 million and \$16 million during the years ended December 31, 2016 and 2015, respectively, when compared to the same periods in 2015 and 2014.

Non-Hotel Segment

For the years ended December 31, 2016, 2015 and 2014, our Non-Hotel segment revenue accounted for 20%, 15% and 9%, respectively, of our total consolidated revenue. Our Non-Hotel segment revenue increased by \$61 million or 27%, for the year ended December 31, 2016, when compared to the same period in 2015, primarily driven by increased bookings in 2016 and 2015 across all businesses.

Our Attractions business benefitted in 2016 from an increase in supply of attraction listings and attraction partners, continued growth in our user base globally, and enhanced user experience from the introduction of new features, such as attractions on instant booking for mobile, which enables users to purchase tickets and tours seamlessly without leaving the mobile app. These factors are all contributing to more consumer choice, increased conversion, and continued revenue growth as a result of increased bookings. In our Restaurants business, we have experienced continued revenue growth due to increased bookings in our more established markets and additionally from expansion into new markets. In our Vacation Rentals business we continued to see an increase in property listings, as well as increased revenue during the year ended December 31, 2016, when compared to the same periods in 2015, primarily due to continued growth in our free-to-list model and increased bookings during the year.

Our Non-Hotel segment revenue increased \$118 million during the year ended December 31, 2015 when compared to the same period in 2014. This was driven by growth in our Vacation Rentals business, primarily due to growth in our free-to-list commission-based booking model, and \$96 million in incremental revenue during the years ended December 31, 2015, when compared to the same period in 2014, related to our Attractions and Restaurants businesses, which Viator and Lafourchette were acquired in August 2014 and May 2014, respectively.

Adjusted EBITDA in our Non-Hotel segment decreased \$22 million and \$2 million during the years ended December 31, 2016 and 2015, respectively, when compared to the same periods in 2015 and 2014. The decrease during the year ended December 31, 2016, when compared to the same period in 2015, was primarily due to increased personnel and overhead costs of \$47 million, in addition to increased online traffic acquisition costs and merchant credit card and transaction fees, which more than offset the increase in revenue. Adjusted EBITDA in our Non-Hotel Segment was relatively flat for the year ended December 31, 2015 when compared to the same period in 2014. The Attractions, Restaurants and Vacation Rentals businesses are all at the earlier stages of their growth and business life cycle which require early investment to fund growth initiatives, such as additional personnel, and a contributing factor to this reportable segment operating at a loss for the periods presented.

Revenue by Geography

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(in millions)				
Revenue by geographic region:					
North America (1)	\$ 830	\$ 775	\$ 629	7%	23%
EMEA (2)	454	473	405	(4%)	17%
APAC (3)	144	172	156	(16%)	10%
LATAM (4)	52	72	56	(28%)	29%
Total	<u>\$ 1,480</u>	<u>\$ 1,492</u>	<u>\$ 1,246</u>	(1%)	20%

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

Revenue outside of North America, or international revenue, decreased \$67 million or 9% during the year ended December 31, 2016, when compared to the same period in 2015 and increased \$100 million or 16% during the year ended December 31, 2015, when compared to the same period in 2014. International revenue represented 44%, 48%, and 50% of total revenue during the years ended December 31, 2016, 2015, and 2014, respectively. Our international revenue growth rate decelerated during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to the overall decrease in revenue per hotel shopper, which is explained above. Our international revenue also declined as a percentage of total revenue during the year ended December 31, 2016 when compared to the same period in 2015. We believe this was largely due to the timing of our instant booking feature rollout in international markets during the first half of this year, and its associated dilutive impact to TripAdvisor-branded click-based and transaction revenue, as compared to the rollout in our U.S market, which was completed in the third quarter of 2015, and to a lesser extent the negative impact to total revenue from the fluctuation of foreign currency exchange rates. Although international revenue increased, our international revenue growth rate slowed and international revenue, as a percentage of total revenue, declined slightly during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to the impact of fluctuations in foreign currency exchange rates, specifically the prolonged weakness of the Euro, in addition to our accelerated rollout of instant booking in the U.K. in the third quarter of 2015, which had a dilutive impact on international revenue in 2015. In addition, our international hotel shoppers have generally monetized at lower revenue per hotel shopper rates than hotel shoppers in the U.S. market for all periods presented.

Consolidated Expenses

Cost of Revenue

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(in millions)				
Direct costs	\$ 51	\$ 43	\$ 31	19%	39%
Personnel and overhead	20	15	9	33%	67%
Total cost of revenue	<u>\$ 71</u>	<u>\$ 58</u>	<u>\$ 40</u>	22%	45%
% of revenue	4.8%	3.9%	3.2%		

2016 vs. 2015

Cost of revenue increased \$13 million during the year ended December 31, 2016, when compared to the same periods in 2015, primarily due to increased direct costs from merchant credit card and transaction fees of \$5 million, driven by additional transaction costs from growth in our Attractions and Vacation Rentals free-to-list businesses, and to a lesser extent increased personnel costs from increased headcount needed to support business growth and customer support primarily in our Non-Hotel segment.

2015 vs. 2014

Cost of revenue increased \$18 million during the year ended December 31, 2015, when compared to the same periods in 2014, primarily due to increased direct costs from merchant credit card and transaction fees of \$9 million, driven by additional transaction costs from our 2014 business acquisition of our Attractions business and growth in our Vacation Rentals free-to-list business; and to a lesser extent increased personnel costs from additional headcount to support business growth and customer support, primarily in our Non-Hotel segment. Our Attractions and Restaurants businesses, which Viator and Lafourchette were acquired in August 2014 and May 2014, respectively, added an incremental \$15 million to our cost of revenue for the year ended December 31, 2015, of which an incremental \$6 million was related to personnel and overhead.

Selling and Marketing

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(in millions)				
Direct costs	\$ 554	\$ 514	\$ 347	8%	48%
Personnel and overhead	202	178	155	13%	15%
Total selling and marketing	<u>\$ 756</u>	<u>\$ 692</u>	<u>\$ 502</u>	9%	38%
% of revenue	51.1%	46.4%	40.3%		

2016 vs. 2015

Direct selling and marketing costs increased \$40 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to increased SEM and other online traffic acquisition costs of \$79 million, partially offset by a decrease in costs related to the cessation of our television advertising campaign. We spent \$51 million on our television advertising campaign during the year ended December 31, 2015 in our Hotel segment, which we did not incur during the year ended December 31, 2016. Personnel and overhead costs increased \$24 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to an increase in headcount in our Non-Hotel segment, which was needed to support business growth.

2015 vs. 2014

Direct selling and marketing costs increased \$167 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to increased SEM and other online traffic acquisition costs and increased costs related to our television campaign. During the year ended December 31, 2015, we spent \$51 million on our television advertising campaign, all within our Hotel segment. Personnel and overhead costs increased \$23 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to incremental personnel costs related to our 2014 business acquisitions in Attractions (Viator purchased in August 2014) and Restaurants (Lafourchette acquired in May 2014). Our Attraction and Restaurant businesses added an incremental \$68 million to our selling and marketing expenses for the year ended December 31, 2015, of which an incremental \$20 million was related to personnel and overhead, with the remaining incremental costs primarily related to SEM and other online traffic acquisition costs.

Technology and Content

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(in millions)				
Personnel and overhead	\$ 213	\$ 174	\$ 147	22%	18%
Other	30	33	24	(9%)	38%
Total technology and content	<u>\$ 243</u>	<u>\$ 207</u>	<u>\$ 171</u>	17%	21%
% of revenue	16.4%	13.9%	13.7%		

2016 vs. 2015

Technology and content costs increased \$36 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to increased personnel costs, including an increase of \$12 million in stock-based compensation, from increased headcount needed to support business growth, including international expansion and enhanced site features.

2015 vs. 2014

Technology and content costs increased \$36 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to increased personnel costs from increased headcount to support business growth, including international expansion and enhanced site features, as well as incremental personnel costs related to our 2014 business acquisitions in Attractions (Viator purchased in August 2014) and Restaurants (Lafourchette acquired in May 2014). Our Attractions and Restaurants businesses added an incremental

\$15 million to our technology and content expenses for the year ended December 31, 2015, of which an incremental \$9 million was related to personnel and overhead.

General and Administrative

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(in millions)				
Personnel and overhead	\$ 101	\$ 106	\$ 87	(5%)	22%
Professional service fees and other	42	104	41	(60%)	154%
Total general and administrative	\$ 143	\$ 210	\$ 128	(32%)	64%
% of revenue	9.7%	14.1%	10.3%		

2016 vs. 2015

General and administrative costs decreased \$67 million during the year ended December 31, 2016, when compared to the same period in 2015. Personnel costs and overhead costs decreased \$5 million during the year ended December 31, 2016, when compared to the same period in 2015. Professional service fees and other also decreased \$62 million during the year ended December 31, 2016, when compared to the same period in 2015, primarily due to a non-cash charitable contribution of \$67 million during the year ended December 31, 2015, discussed below, which did not reoccur in 2016, partially offset by increased consulting costs, non-income taxes, and bad debt expense.

2015 vs. 2014

General and administrative costs increased \$82 million during the year ended December 31, 2015, when compared to the same period in 2014, primarily due to an increase in charitable contributions of \$59 million. During the year ended December 31, 2015, we made a \$67 million non-cash charitable contribution to settle our pledge obligation to the TripAdvisor Charitable Foundation, while we recorded a charitable contribution of \$8 million in the year ended December 31, 2014, which was settled in cash. See “Note 17— Segments and Geographic Information” in the notes to our consolidated financial statements in Item 8 for additional information. Personnel costs and overhead costs also increased \$19 million, which was related to an increase in headcount to support our business operations, as well as incremental personnel costs related to our 2014 business acquisitions in Attractions (Viator purchased in August 2014) and Restaurants (Lafourchette acquired in May 2014). Our Attractions and Restaurants businesses added an incremental \$11 million to our general and administrative expenses for the year ended December 31, 2015, of which an incremental \$8 million was related to personnel and overhead.

Depreciation

Depreciation expense consists of depreciation on computer equipment, leasehold improvements, furniture, office equipment and other assets, our corporate headquarters building and amortization of capitalized software and website development costs.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Depreciation	\$ 69	\$ 57	\$ 47
% of revenue	4.7%	3.8%	3.8%

Depreciation expense increased \$12 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to increased amortization related to capitalized software and website development costs of \$9 million and incremental depreciation on our corporate headquarters building of \$1 million. Depreciation expense increased \$10 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to increased amortization related to capitalized software and website development costs of \$7 million and incremental depreciation on our corporate headquarters building of \$2 million. Refer to “Note 13— *Commitments and Contingencies*” in the notes to our consolidated financial statements in Item 8 for additional information on our corporate headquarters asset.

Amortization of Intangible Assets

Amortization consists of the amortization of purchased definite-lived intangibles.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Amortization of intangible assets	\$ 32	\$ 36	\$ 18
% of revenue	2.2%	2.4%	1.4%

Amortization of intangible assets decreased \$4 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to the completion of amortization related to certain intangible assets from previous business acquisitions. Amortization of intangible assets increased \$18 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to incremental amortization from purchased definite lived intangibles related to our 2014 business acquisitions. Refer to “Note 3— *Acquisitions and Dispositions*” in the notes to our consolidated financial statements in Item 8 for additional information on our acquisitions.

Interest Expense

Interest expense primarily consists of interest incurred, commitment fees and debt issuance cost amortization related to our 2011 Credit Facility, 2015 Credit Facility, 2016 Credit Facility, and Chinese Credit Facilities, as well as interest on our financing obligation related to our corporate headquarters.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Interest expense	\$ (12)	\$ (10)	\$ (9)

Interest expense increased \$2 million during the year ended December 31, 2016 when compared to the same period in 2015, primarily due to an increase of \$3 million in interest imputed on our financing obligation related to our corporate headquarters lease in 2016, partially offset by a decrease in interest incurred due to lower average outstanding borrowings during the year ended December 31, 2016. Interest expense increased \$1 million during the year ended December 31, 2015 when compared to the same period in 2014, primarily due to interest imputed on our financing obligation related to our corporate headquarters lease of approximately \$4 million in 2015, partially offset by a decrease in interest incurred due to lower average outstanding borrowings during 2015. Refer to “Note 9— *Debt*” and “Note 13— *Commitments and Contingencies*” in the notes to our consolidated financial statements in Item 8 for additional information on our outstanding borrowing facilities and our financing obligation related to our corporate headquarters, respectively.

Interest Income and Other, Net

Interest income and other, net primarily consists of interest earned and amortization of discounts and premiums on our marketable securities, net foreign currency exchange gains and losses, and gains and losses on sales of our marketable securities and sale of businesses.

	Year ended December 31,		
	2016	2015	2014
		(in millions)	
Interest income and other, net	\$ (3)	\$ 17	\$ (9)

2016 vs. 2015

Interest income and other, net decreased during the year ended December 31, 2016, when compared to the same period in 2015, primarily due to a \$20 million gain from sale of business of one of our Chinese subsidiaries in 2015 that did not reoccur in 2016.

2015 vs. 2014

Interest income and other, net increased during the year ended December 31, 2015, when compared to the same periods in 2014, primarily due to the fluctuation of foreign currency exchange rates and a \$20 million gain from the sale of one of our Chinese subsidiaries during 2015. Refer to “Note 3— *Acquisitions and Dispositions*” in the notes to our consolidated financial statements in Item 8 for additional information on the sale of this business.

Provision for Income Taxes

	Year ended December 31,		
	2016	2015	2014
		(in millions)	
Provision for income taxes	\$ 31	\$ 41	\$ 96
Effective tax rate	20.5%	17.2%	29.8%

Our effective tax rate is generally less than the federal statutory rate in the United States primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower. This is partly driven by a statutory tax rate in the United Kingdom of 20% and our tax incentive of 5% tax rate on qualifying income in Singapore granted by the Singapore Economic Development Board in 2011. This incentive provides for a reduced tax rate on qualifying income of 5% as compared to Singapore’s statutory tax rate of 17% and is conditional upon our meeting certain employment and investment thresholds, which the Company has met through 2016. Our effective tax rate is partially offset by state income taxes, non-deductible stock compensation and accruals on uncertain tax positions.

2016 vs. 2015

Our effective tax rate increased to 20.5% during the year ended December 31, 2016 from 17.2% in the same period in 2015. The change in the effective tax rate for 2016 compared to the 2015 rate was primarily due to a change in jurisdictional earnings, which includes a non-cash charitable contribution during the year ended December 31, 2015, which did not reoccur in 2016, and the recognition of prior year tax benefits in response to a recent U.S. Tax Court ruling in regards to Altera Corporation on the treatment of stock-based compensation in cost-sharing arrangements, both of which are discussed below.

2015 vs. 2014

Our effective tax rate decreased to 17.2% during the year ended December 31, 2015 from 29.8% in the same period in 2014. The change in the effective tax rate for 2015 compared to the 2014 rate was primarily due to a change in jurisdictional earnings, which includes an incremental \$59 million of expense related to charitable contributions in the U.S. during 2015, and the recognition of a tax benefit of \$13 million in response to a recent U.S.

Tax Court ruling in regards to Altera Corporation on the treatment of stock-based compensation in cost-sharing arrangements. Refer to “Note 10 — *Income Taxes*” in the notes to our consolidated financial statements in Item 8 for a discussion regarding the Altera Corporation court ruling. The decline in our effective tax rate was also partly driven by a decrease in the statutory tax rate in the United Kingdom from 21% to 20% in 2015

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we also disclose Adjusted EBITDA, which is a non-GAAP financial measure. A “non-GAAP financial measure” refers to a numerical measure of a company’s historical or future financial performance, financial position, or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in such company’s financial statements.

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) other non-recurring expenses and income.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results reported in accordance with GAAP. Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net income and our other GAAP results.

Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation or other stock-settled obligations;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of Adjusted EBITDA to Net Income, the most directly comparable financial measure calculated and presented in accordance with GAAP, for the periods presented above.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Net income	\$ 120	\$ 198	\$ 226
Provision for income taxes	31	41	96
Other expense (income), net	15	(7)	18
Other non-recurring expenses	-	2	-
Non-cash charitable contribution (1)	-	67	-
Stock-based compensation	85	72	63
Amortization of intangible assets	32	36	18
Depreciation	69	57	47
Adjusted EBITDA	\$ 352	\$ 466	\$ 468

- (1) During the fourth quarter of 2015, we incurred an expense in the amount of \$67 million to reflect a non-cash contribution to The TripAdvisor Charitable Foundation (the "Foundation"), which was recorded to general and administrative expense in our consolidated statement of operations. We settled this obligation in treasury shares based on the fair value of our common stock on the date the shares were issued to the Foundation. Given the use of stock to settle the obligation, the amount has been excluded from Adjusted EBITDA. TripAdvisor does not expect to make any future contributions to the Foundation. Refer to "Note 17 – Segments and Geographic Information" for a discussion of this charitable contribution.

Liquidity and Capital Resources

The following section explains how we have generated and used our cash historically, describes our current capital resources and discusses our future known financial commitments.

Sources and Uses of Cash

Our cash flows from operating, investing and financing activities, as reflected in the consolidated statements of cash flows, are summarized in the following table:

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Net cash provided by (used in):			
Operating activities	\$ 321	\$ 418	\$ 407
Investing activities	(163)	(58)	(233)
Financing activities	(143)	(189)	(61)

Our principal source of liquidity is cash flows generated from operations, although liquidity needs can also be met through drawdowns under our 2015 Credit Facility, 2016 Credit Facility and Chinese Credit Facilities. As of December 31, 2016 and 2015, we had \$746 million and \$698 million, respectively, of cash, cash equivalents and short and long-term available-for-sale marketable securities. As of December 31, 2016 approximately \$476 million of our cash, cash equivalents and all, or \$134 million of short and long-term available-for-sale marketable securities, were held by our international subsidiaries, primarily in the United Kingdom. Cumulative undistributed earnings of foreign subsidiaries that we intend to indefinitely reinvest outside of the United States totaled approximately \$828 million as of December 31, 2016. Should we distribute, or be treated under certain U.S. tax rules as having distributed, the earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. To date, we have permanently reinvested our foreign earnings outside of the United States and we currently do not intend to repatriate these earnings to fund U.S. operations. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. The majority of cash on hand is denominated in U.S. dollars.

As of December 31, 2016, we had outstanding borrowings of \$91 million in long-term debt, within our U.S. subsidiaries, and approximately \$906 million of borrowing capacity available under our 2015 Credit Facility, which we are currently borrowing under a one-month interest period at 2.0% per annum, which will reset periodically. In

addition, we had outstanding borrowings of \$73 million in short-term debt, within our subsidiaries outside the U.S., and no additional borrowing capacity available under our 2016 Credit Facility, which we are currently borrowing under a one-month interest period at 1.9% per annum, which will also reset periodically. Finally, as of December 31, 2016, we had current borrowings of \$7 million and approximately \$33 million of available borrowing capacity under our Chinese Credit Facilities, which currently bear interest at a rate based on 100% of the People's Bank of China's base rate, or 4.35%. For further discussion on our credit facilities, see below, and also refer to "Note 9—*Debt*" in the notes to our consolidated financial statements in Item 8.

Historically, the cash we generate from operations has been sufficient to fund our working capital requirements, capital expenditures and to meet our long term debt obligations and other financial commitments. Management believes that our cash, cash equivalents and available-for-sale marketable securities, combined with expected cash flows generated by operating activities and available cash from our credit facilities, will be sufficient to fund our ongoing working capital requirements, capital expenditures and business growth initiatives; meet our long term debt obligations, lease commitments and other financial commitments; and fund any potential share repurchases or potential acquisitions for at least the next twelve months. However, if during that period or thereafter, we are not successful in generating sufficient cash flow from operations or in raising additional capital, including refinancing or incurring additional debt, when required in sufficient amounts and on terms acceptable to us, we may be required to reduce our planned capital expenditures and scale back the scope of our business growth initiatives, either of which could have a material adverse effect on our future financial condition or results of operations.

2016 vs. 2015

Operating Activities

For the year ended December 31, 2016, net cash provided by operating activities decreased by \$97 million or 23% when compared to the same period in 2015, primarily due to a decrease in net income of \$78 million and a decrease in working capital movements of \$11 million, primarily due to the timing of vendor payments, income tax payments, and collection of receivables, as well as a lower income tax provision in 2016.

Investing Activities

For the year ended December 31, 2016, net cash used in investing activities increased by \$105 million when compared to the same period in 2015, primarily due to a net increase in cash used for the purchases, sales and maturities of our marketable securities of \$103 million, net proceeds from the sale of one of our Chinese subsidiaries of \$25 million in 2015 which did not reoccur in 2016, and a net increase in cash paid for business acquisitions and other investments of \$14 million, partially offset by a decrease in capital expenditures of \$37 million, primarily related to the completion of our corporate headquarters building in mid-2015.

Financing Activities

For the year ended December 31, 2016, net cash used in financing activities decreased by \$46 million when compared to the same period in 2015, primarily due to: (i) a repayment of our 2011 credit facility of \$300 million in 2015, (ii) a decrease in borrowings of \$186 million in 2016 from our 2015 Credit Facility, (iii) incremental borrowings of \$3 million and a decrease in repayments of \$40 million in 2016 on our Chinese Credit Facilities, (iv) a decrease in tax withholding payments of \$58 million and cash received for stock option exercises of \$5 million in 2016 primarily related to a decrease in the number of stock options exercised and lower average stock price in 2016, and (v) borrowings on our 2016 Credit Facility of \$73 million in 2016; partially offset by (i) an increase in repayments of \$120 million in 2016 related to our 2015 Credit Facility, (ii) payments of \$105 million for common stock share repurchases under our authorized share repurchase program in 2016, and (iii) \$12 million in lease incentive payments received related to our corporate headquarters in 2015 that did not reoccur in 2016.

2015 vs. 2014

Operating Activities

For the year ended December 31, 2015, net cash provided by operating activities increased by \$11 million or 3% when compared to the same period in 2014, primarily driven by an increase in non-cash items affecting cash flows of \$55 million, which is primarily due to an increase in the following items: stock-based compensation; depreciation; amortization of intangibles; and charitable contributions, partially offset by deferred tax benefits and gain on sale of a business, all of which was partially offset by a decrease in net income of \$28 million and working capital movements of \$16 million. The decrease in working capital movements of \$16 million was primarily related to an overall lower income tax provision for 2015, partially offset by an increase in operating cash flow from deferred merchant payables.

Investing Activities

For the year ended December 31, 2015, net cash used in investing activities decreased by \$175 million when compared to the same period in 2014, primarily due to a net decrease in cash paid for business acquisitions of \$302 million and net proceeds from the sale of one of our Chinese subsidiaries of \$25 million in 2015, partially offset by a net increase in cash used for the purchases, sales and maturities of our marketable securities of \$125 million, and an increase in capital expenditures of \$28 million, primarily driven by expenditures on our corporate headquarters.

Financing Activities

For the year ended December 31, 2015, net cash used in financing activities increased by \$128 million when compared to the same period in 2014, primarily due to the repayment of our Term Loan of \$300 million in 2015, or an incremental outflow of \$260 million, partial repayment of our outstanding borrowings related to our 2015 Credit Facility of \$90 million, incremental repayments of our outstanding borrowings related to our Chinese Credit Facilities of \$38 million, and an increase in tax withholding payments of \$40 million primarily related to increased exercises of stock options, partially offset by net borrowings on our 2015 Credit Facility of \$287 million, and receipts of \$12 million in lease incentive payments related to our corporate headquarters building financing obligation.

Cash Requirements

The following table aggregates our material contractual obligations and minimum commercial commitments as of December 31, 2016:

	Total	By Period			
		Less than 1 year	1 to 3 years (in millions)	3 to 5 years	More than 5 years
2015 Credit Facility, 2016 Credit Facility, and Chinese Credit Facilities (1)	\$ 171	\$ 80	\$ —	\$ 91	\$ —
Expected interest payments on 2015 Credit Facility (2)	7	2	4	1	—
Expected commitment fee payments on 2015 Credit Facility (3)	7	2	4	1	—
Property leases, net of sublease income (4)	248	25	51	52	120
Total (5)(6)	<u>\$ 433</u>	<u>\$ 109</u>	<u>\$ 59</u>	<u>\$ 145</u>	<u>\$ 120</u>

- (1) Debt repayment amounts assume that our existing debt under our 2015 Credit Facility is repaid at the end of the credit agreement and do not assume additional borrowings or refinancing of existing debt. See “Note 9—Debt” in the notes to the consolidated financial statements in Item 8 for additional information on our 2015 Credit Facility, 2016 Credit Facility, and Chinese Credit Facilities.
- (2) The amounts included as expected interest payments in this table are based on the effective interest rate as of December 31, 2016, but, could change significantly in the future. Amounts assume that our existing debt is

repaid at the end of the credit agreement and do not assume additional borrowings or refinancing of existing debt.

- (3) The amounts included as expected commitment fee payments in this table are based on the unused portion of credit facility, issued letters of credit, and current effective commitment fee rate as of December 31, 2016, however, these variables could change significantly in the future.
- (4) Estimated future minimum rental payments under operating leases with non-cancelable lease terms, including our corporate headquarters lease in Needham, MA. See discussion under “Office Lease Commitments” below.
- (5) Excluded from the table was \$108 million of unrecognized tax benefits, including interest, that we have recorded in other long-term liabilities for which we cannot make a reasonably reliable estimate of the amount and period of payment. We do not anticipate any material changes in the next year.
- (6) Excluded from the table was \$3 million of undrawn standby letters of credit, related to our property leases.

2015 Credit Facility

On June 26, 2015, we entered into a five year credit agreement (the “2015 Credit Facility”) with a group of lenders and immediately borrowed \$290 million, which was used to repay all outstanding borrowings pursuant to the 2011 Credit Facility (as described in “Note 9 — Debt” in the notes to the consolidated financial statements in Item 8). The 2015 Credit Facility, among other things, provides for (i) a \$1 billion unsecured revolving credit facility, (ii) an interest rate on borrowings and commitment fees based on the Company’s and its subsidiaries’ consolidated leverage ratio; and (iii) uncommitted incremental revolving loan and term loan facilities, subject to compliance with a leverage covenant and other conditions. Any overdue amounts under or in respect of the 2015 Credit Facility not paid when due shall bear interest at (i) in the case of principal, the applicable interest rate plus 2.00% per annum, (ii) in the case of interest denominated in Sterling or Euro, the applicable rate plus 2.00% per annum; and (iii) in the case of interest denominated in US dollars, 2.00% per annum plus the Alternate Base Rate plus the interest rate spread applicable to ABR loans. The Company may borrow from the 2015 Credit Facility in U.S dollars, Euros and British pound sterling with a term of five years expiring June 26, 2020.

There is no specific repayment date prior to the end of the five-year agreement for our outstanding borrowings under the 2015 Credit Facility. During the year ended December 31, 2016, the Company borrowed an additional \$101 million and repaid \$210 million of our outstanding borrowings on the 2015 Credit Facility. Based on the Company’s current leverage ratio, our borrowings bear interest at LIBOR plus 125 basis points, or the Eurocurrency Spread. As of December 31, 2016, the Company had \$91 million in outstanding borrowings under this facility and was borrowing under a one-month interest period of 2.0% per annum, which was determined using a one-month interest period Eurocurrency Spread, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period. We are also required to pay a quarterly commitment fee, on the daily unused portion of the revolving credit facility for each fiscal quarter and fees in connection with the issuance of letters of credit. Unused revolver capacity is currently subject to a commitment fee of 20.0 basis points, given the Company’s current leverage ratio. The 2015 Credit Facility includes \$15 million of borrowing capacity available for letters of credit and \$40 million for borrowings on same-day notice. As of December 30, 2016, we had issued \$3 million of outstanding letters of credit under the 2015 Credit Facility.

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

The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under 2015 Credit Facility. As of December 31, 2016, we are in compliance with all of our debt covenants.

2016 Credit Facility

On September 7, 2016, we entered into an uncommitted facility agreement with Bank of America Merrill Lynch International Limited (the “Lender”), 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 absolute discretion and can be canceled at any time. Repayment terms for borrowings under the 2016 Credit Facility are generally one to six month periods 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 connection with the 2016 Credit Facility, any lender fees and debt financing costs paid were not material. 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.

We borrowed \$73 million from this uncommitted credit facility in September 2016. These funds were used for general working capital needs of the Company, primarily for partial repayment of our long term debt, and the liability is recorded in short-term liabilities on our consolidated balance sheet as of December 31, 2016. The Company was borrowing under a one-month interest period of 1.9% per annum at December 31, 2016, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period.

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”). As of December 31, 2016 and December 31, 2015, we had short-term borrowings outstanding of \$7 million and \$1 million, respectively.

We are parties to a \$30 million, one-year revolving credit facility with Bank of America (the “Chinese Credit Facility—BOA”) that is currently subject to review on a periodic basis with no specific expiration period. Our Chinese Credit Facility—BOA currently bears interest at a rate based on 100% of the People’s Bank of China’s base rate, which was 4.35% as of December 31, 2016. As of December 31, 2016, there are no outstanding borrowings under the 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”) which was reduced from RMB 125,000,000 (approximately \$18 million) during the year ended December 31, 2016. Our Chinese Credit Facility—JPM currently bears interest at a rate based on 100% of the People’s Bank of China’s base rate, which was 4.35% as of December 31, 2016. As of December 31, 2016, we had \$7 million of outstanding borrowings from the Chinese Credit Facility – JPM.

Office Lease Commitments

In June 2013, TripAdvisor LLC (“TA LLC”), our indirect, wholly owned subsidiary, entered into a lease, for a new corporate headquarters (the “Lease”). Pursuant to the Lease, the landlord built an approximately 280,000 square foot rental building in Needham, Massachusetts (the “Premises”), and leased the Premises to TA LLC as our new corporate headquarters for an initial term of 15 years and 7 months or through December 2030. TA LLC also has an option to extend the term of the Lease for two consecutive terms of five years each.

Because we were involved in the construction project and were responsible for paying a portion of the costs of normal finish work and structural elements of the Premises, the Company was deemed for accounting purposes to be the owner of the Premises during the construction period under build to suit lease accounting guidance under GAAP. Therefore, the Company recorded project construction costs during the construction period incurred by the landlord as a construction-in-progress asset and a related construction financing obligation on our consolidated balance sheets. The amounts that the Company has paid or incurred for normal tenant improvements and structural improvements had also been recorded to the construction-in-progress asset.

Upon completion of construction at end of the second quarter of 2015, we evaluated the construction-in-progress asset and construction financing obligation for de-recognition under the criteria for “sale-leaseback” treatment under GAAP. We concluded that we have forms of continued economic involvement in the facility, and therefore did not meet the provisions for sale-leaseback accounting. This determination was based on the Company’s continuing involvement with the property in the form of non-recourse financing to the lessor. Therefore, the Lease is accounted for as a financing obligation. Accordingly, we began depreciating the building asset over its estimated useful life and incurring interest expense related to the financing obligation imputed using the effective interest rate method. We bifurcate our lease payments pursuant to the Premises into: (i) a portion that is allocated to the building (a reduction to the financing obligation) and; (ii) a portion that is allocated to the land on which the building was constructed. The portion of the lease obligations allocated to the land is treated as an operating lease that commenced in 2013. The financing obligation is considered a long-term finance lease obligation and is recorded to long-term liabilities on our consolidated balance sheet. At the end of the lease term, the carrying value of the building asset and the remaining financing obligation are expected to be equal, at which time we may either surrender the leased asset as settlement of the remaining financing obligation or extend the initial term of the lease for the continued use of the asset. In the years ended December 31 2016, 2015, and 2014, the Company recorded \$7 million, \$4 million, and \$0 million of interest expense, respectively, \$3 million, \$2 million, and \$0 million of depreciation expense, respectively, and \$2 million, \$1 million, \$1 million, of rent expense in general and administrative expense on our consolidated statements of operations, respectively, related to the Premises.

We also lease an aggregate of approximately 465,000 square feet at approximately 40 other locations across North America, Europe and Asia Pacific, in cities such as, New York, Boston, London, Sydney, Barcelona, Paris, and Beijing, primarily for our sales offices, subsidiary headquarters, and international management teams, pursuant to leases with various expiration dates, with the latest expiring in June 2027.

As of December 31, 2016, future minimum commitments under our corporate headquarters lease and other non-cancelable operating leases for office space with terms of more than one year and contractual sublease income were as follows:

Year	Corporate Headquarters Lease (1)	Other Operating Leases	Sublease Income	Total Lease Commitments (Net of Sublease Income)
(in millions)				
2017	\$ 9	\$ 17	\$ (1)	\$ 25
2018	9	17	(1)	25
2019	9	18	(1)	26
2020	9	17	—	26
2021	10	16	—	26
Thereafter	87	33	—	120
Total minimum lease payments	<u>\$ 133</u>	<u>\$ 118</u>	<u>\$ (3)</u>	<u>\$ 248</u>

- (1) Amount includes an \$84 million financing obligation, which we have recorded in other long-term liabilities on our consolidated balance sheet at December 31, 2016, related to our corporate headquarters lease.

Off-Balance Sheet Arrangements

As of December 31, 2016, other than the items discussed above, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K of the SEC, that have, or are reasonably likely to have, a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contingencies

In the ordinary course of business, we and our subsidiaries are parties to regulatory and legal matters. These matters may relate to claims involving alleged infringement of third-party intellectual property rights, defamation, taxes, regulatory compliance and other claims. Periodically, we review the status of all significant outstanding matters to assess the 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 disclosure in the notes to the consolidated statements for loss contingencies that do not meet both of these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability 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. There may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which would have a material adverse effect on us.

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.

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 have commenced an employment tax audit with the IRS for the 2013 and 2014 tax years. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. These examinations may lead to proposed or ordinary course adjustments to our taxes. We are no longer subject to tax examinations by tax authorities for years prior to 2008. As of December 31, 2016, no material assessments have resulted, except as noted below regarding our 2009 and 2010 IRS audit with Expedia. As of December 31, 2016, no material assessments have resulted, except as noted below regarding our 2009 and 2010 IRS audit with Expedia.

In January 2017, as part of the Company's IRS audit of Expedia, 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 of \$10 million to \$14 million after consideration of competent authority relief, exclusive of interest and penalties. We disagree with the proposed adjustments and we intend to defend our position through applicable administrative and, if necessary, judicial remedies. 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. 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 would be subject to significant additional tax liabilities.

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

See "Note 10—*Income Taxes*" in the notes to our consolidated financial statements in Item 8 for further information on potential contingencies surrounding current audits by the IRS and various other domestic and foreign tax authorities, and other income tax matters.

Certain Relationships and Related Party Transactions

For information on our relationships with Expedia and Liberty TripAdvisor Holdings, Inc. refer to “Note 16 — *Related Party Transactions*” in the notes to our consolidated financial statements in Item 8.

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, where 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 the 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 management was making the estimate; and/or
- Changes in the estimate or different estimates that management could have selected may have had a material impact on our financial condition or results of operations.

Our significant accounting policies and estimates are more fully described in “Note 2— *Significant Accounting Policies*” in the notes to our consolidated financial statements in Item 8. A discussion of information about the nature and rationale for our critical accounting estimates is below.

Business Combination Valuations and Recoverability of Goodwill, Indefinite and Definite-Lived Intangible Assets

Business Combination Valuations and Goodwill. We account for acquired businesses using the purchase method of accounting which requires that the tangible assets and identifiable intangible assets acquired and assumed liabilities be recorded at the date of acquisition at their respective fair values. Any excess purchase price over the estimated fair value of the net tangible and intangible assets acquired is allocated to goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer and supplier relationships, acquired technology and trade names from a market participant perspective, useful lives and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate.

We assess goodwill, which is not amortized, for impairment annually during the fourth quarter, or more frequently, if events and circumstances indicate impairment may have occurred. We test goodwill for impairment at the reporting unit level. Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. We evaluate our reporting units when changes in our operating structure occur, and if necessary, reassign goodwill using a relative fair value allocation approach. Once goodwill has been allocated to the reporting units, it no longer retains its identification with a particular acquisition and becomes identified with the reporting unit in its entirety. Accordingly, the fair value of the reporting unit as a whole is available to support the recoverability of its goodwill. We have determined each of our operating segments with goodwill represents a reporting unit for the purpose of assessing impairment for our 2016 impairment analysis.

In the evaluation of goodwill for impairment, we generally first perform a qualitative assessment to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that the estimated fair value of the reporting unit is less than the carrying amount. However, the Company has the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Periodically, we may choose to forgo the initial qualitative assessment and proceed directly to a quantitative analysis to assist in our annual evaluation. When assessing goodwill for impairment, our decision to perform a qualitative impairment assessment for an individual reporting unit in a given year is influenced by a number of factors, such as the size of the reporting unit's goodwill, the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, and the amount of time in between quantitative fair value assessments and the date of acquisition to establish an updated baseline quantitative analysis. During a qualitative assessment, if we determine that it is not more likely than not that the implied fair value of the goodwill is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the implied fair value of the goodwill is less than its carrying amount, we then perform a quantitative assessment and compare the estimated fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its estimated fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

In determining the estimated fair values of reporting units in a quantitative goodwill impairment test, we generally use a blend, of the following recognized valuation methods: the income approach (discounted cash flows model) and the market valuation approach, which we believe compensates for the inherent risks of using either model on a stand-alone basis. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that we expect the reporting units to generate in the future. Our significant estimates in the discounted cash flows model include: weighted average cost of capital; long-term rate of growth and profitability of the reporting unit; income tax rates and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison to comparable publicly traded firms in similar lines of business and other precedent transactions. Our significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and/or income multiples in estimating the fair value of the reporting units. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate. We believe that the estimated fair values assigned to our reporting units in impairment tests are based on reasonable assumptions that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates. During the Company's annual goodwill impairment test during the fourth quarter of 2016, a qualitative assessment of the Hotel, Vacation Rentals and Attraction reporting units' goodwill was performed, and a quantitative assessment of the Restaurant reporting unit goodwill was performed. For fiscal 2016, we determined the fair value of all our reporting units were significantly in excess of their carrying values. Accordingly, we did not recognize any impairment charges during the year ending December 31, 2016. During fiscal 2016, there were no significant changes in any of our estimates or assumptions that had a material impact on the outcome of our impairment calculations. However, as we periodically reassess estimated future cash flows and asset fair values, changes in our estimates and assumptions may cause us to realize material impairment charges in the future.

As part of our qualitative assessment for our 2016 goodwill impairment analysis of our Hotel, Vacation Rentals and Attractions reporting units, the factors that we considered included, but were not limited to: (a) changes in macroeconomic conditions in the overall economy and the specific markets in which we operate, (b) our ability to access capital, (c) changes in the online travel industry, (d) changes in the level of competition, (e) evaluation of our current and future forecasted financial results (f) comparison of our current financial performance to historical and budgeted results, (g) changes in excess market capitalization over book value based on our common stock price and other market specific information, (h) changes in estimates and/or assumptions since the last quantitative analysis, (i) changes in the regulatory environment; and (j) changes in strategic outlook or organizational structure and leadership of the reporting units. As part of our quantitative assessment for our Restaurants reporting unit we determined its estimated fair value using a blend of an income approach (discounted cash flow model) and market valuation approach using an equal weighting. We concluded the estimated fair value was significantly in excess of its carrying value. We also performed a sensitivity analysis, calculating estimated fair values using different rates for the weighted-average cost of capital and long-term rates of growth in the income approach and different

revenue/income multiples in our market approach and the estimated fair value remained in excess of its carrying value.

Indefinite-Lived Intangible Assets. Intangible assets that have indefinite lives are not amortized and are tested for impairment annually during the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value of indefinite-lived intangible assets that is subject to annual assessment for impairment is \$30 million at December 31, 2016 and consists of trademarks and tradenames. Similar to the qualitative assessment for goodwill, we may assess qualitative factors to determine if it is more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount. If we determine that it is not more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount, we compare the implied fair value of the indefinite-lived asset with its carrying amount. If the carrying value of an individual indefinite-lived intangible asset exceeds its implied fair value, the individual asset is written down by an amount equal to such excess. The assessment of qualitative factors is optional and at our discretion. We may bypass the qualitative assessment for any indefinite-lived intangible asset in any period and resume performing the qualitative assessment in any subsequent period. We base our measurement of fair value of indefinite-lived intangible assets using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate future revenues, the appropriate royalty rate and the weighted average cost of capital. The use of different estimates or assumptions in determining the fair value of our indefinite-lived intangible assets may result in different values for these assets, which could result in impairment, or, in the period in which an impairment is recognized, could result in a materially different impairment charge. During the Company's annual indefinite-lived intangible impairment test during the fourth quarter of 2016, a qualitative assessment was performed. As part of our qualitative assessment we considered, amongst other factors, the amount of excess fair value of our trade names and trademarks to the carrying value of those same assets, using the results of our most recent quantitative assessment, while also considering changes in estimates and/or assumptions since the last quantitative analysis. After considering these factors and the impact that changes in such factors would have on the inputs used in our previous quantitative assessment, we determined that it was more likely than not that our indefinite-lived intangible assets were not impaired as of December 31, 2016.

Definite-Lived Intangible Assets and Other Long-Lived Assets. Intangible assets with definite lives and other long-lived assets are carried at cost and are amortized on a straight-line basis over their estimated useful lives of one to twelve years. The straight-line method of amortization is currently used for our definite-lived intangible assets as it approximates, to date, or is our best estimate, of the distribution of the economic use of our identifiable intangible assets. We review the carrying value of long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable.

Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we assess the recoverability of the asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset of the group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured by the amount that the carrying values, of such asset groups, exceed their fair value and would be included in operating income on the consolidated statement of operations. We have not identified any circumstances that would warrant an impairment charge for any recorded definite lived or other long term assets, including our cost method investments, on our consolidated balance sheet at December 31, 2016.

The use of different estimates or assumptions in determining the fair value of our goodwill, indefinite-lived and definite-lived intangible assets may result in different values for these assets, which could result in different fair

values at the date of acquisition or in an impairment analysis or, in period in which an impairment is recognized, could result in a materially different impairment charge.

For additional information on our goodwill, indefinite-lived intangibles and definite-lived intangibles refer to “Note 8— *Goodwill and Intangible Assets, Net*” in the notes to our consolidated financial statements in Item 8.

Income Taxes

We record income taxes under the asset and liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider all relevant factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income and the carryforward periods available to us for tax reporting purposes, as well as assessing available tax planning strategies. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in a future tax return. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination. For those positions for which we conclude it is more likely than not it will be sustained, we recognize the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the taxing authority. The difference between the amount recognized and the total tax position is recorded as a liability. The ultimate resolution of these tax positions may be greater or less than the liabilities recorded.

We have not provided for deferred U.S. income taxes on undistributed earnings of our foreign subsidiaries, which we intend to reinvest permanently outside the United States. Should we distribute earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. Due to complexities in tax laws and various assumptions that would have to be made, it is not practicable, at this time, to estimate the amount of unrecognized deferred U.S. taxes on these earnings.

See “Note 10— *Income Taxes*” in the notes to our consolidated financial statements in Item 8 for further information on income taxes.

Stock-Based Compensation

Stock Options

The exercise price for all stock options granted by us to date has been equal to the market price of the underlying shares of common stock at the date of grant. In this regard, when making stock option awards, our practice is to determine the applicable grant date and to specify that the exercise price shall be the closing price of our common stock on the date of grant. Stock options granted during the year ended December 31, 2016 have a term of ten years from the date of grant and generally vest over a four-year requisite service period.

During the year ended December 31, 2016, we issued 1,063,672 of primarily service based stock non-qualified stock options under our Amended and Restated 2011 Stock and Annual Incentive Plan (the “2011 Incentive tock Plan”) with a weighted average grant-date fair value per option of \$22.95. We will amortize the fair value as stock-based compensation expense over the vesting term on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date. The estimated fair value of the options granted under the 2011 Incentive Plan to date, have been calculated

using a Black-Scholes Merton option-pricing model (“Black-Scholes model”). The Black-Scholes model incorporates assumptions to fair value stock-based awards, which includes the risk-free rate of return, expected volatility, expected term and expected dividend yield.

Our risk-free interest rate is based on the rates currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period most closely approximates the stock option’s expected term assumption. Our expected volatility is calculated by equally weighting the historical volatility and implied volatility on our own common stock. Historical volatility is determined using actual daily price observations of our common stock price over a period equivalent to or approximate to the expected term of our stock option grants to date. Implied volatility represents the volatility calculated from the observed prices of our actively traded options on our common stock, with remaining maturities in excess of six months and market prices approximate to the exercise prices of the stock option grant. We estimate our expected term using historical exercise behavior and expected post-vest termination data. Our expected dividend yield is zero, as we have not paid any dividends on our common stock to date and do not expect to pay any cash dividends for the foreseeable future.

Restricted Stock Units (RSUs)

RSUs are stock awards that are granted to employees entitling the holder to shares of our common stock as the award vests. During the year ended December 31, 2016, we issued 2,015,898 of primarily service based RSUs under the 2011 Incentive Plan with a weighted average grant date fair value per option of \$63.71. RSUs are measured at fair value based on the number of shares granted and the quoted price of our common stock at the date of grant. We amortize the fair value as stock-based compensation expense over the vesting term (generally a four-year requisite service period) on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive these awards, and subsequent events are not indicative of the reasonableness of our original estimates of fair value. In the third quarter of 2016 we adopted new accounting guidance from the Financial Accounting Standards Board (“FASB”) on stock compensation, or ASU 2016-09, as described in “Recently Adopted Accounting Pronouncements” below and have elected to account for forfeitures as they occur, rather than continue to estimate expected forfeitures. Refer to “Note 4— *Stock Based Awards and Other Equity Instruments*” in the notes to our consolidated financial statements in Item 8 for further information on our equity award activity.

Websites and Internal Use Software Development Costs

We capitalize certain costs incurred during the application development stage related to the development of websites and internal use software when it is probable the project will be completed and the software will be used as intended. Such costs are amortized on a straight-line basis over the estimated useful life of the related asset, generally estimated to be three years. Capitalized costs include internal and external costs, if direct and incremental, and deemed by management to be significant. We expense costs related to the planning and post-implementation phases of software and website development as these costs are incurred. Maintenance and enhancement costs (including those costs in the post-implementation stages) are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the website or software resulting in added functionality, in which case the costs are capitalized. To the extent that we change the manner in which we develop and test new features and functionalities related to our websites and internal use software, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website and internal use software development costs we capitalize and amortize could change in future periods.

As of December 31, 2016 and 2015, our recorded capitalized software and website development costs, net of accumulated amortization, were \$86 million and \$71 million, respectively. For the years ended December 31, 2016 and 2015, we capitalized \$62 million and \$52 million, respectively, related to software and website development costs. For the years ended December 31, 2016, 2015 and 2014, we recorded amortization of capitalized software and website development costs of \$46 million, \$37 million and \$30 million, respectively, which is included in depreciation expense on our consolidated statements of operations for those years.

Revenue Recognition

We recognize revenue from our services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Deferred revenue, which primarily relates to our subscription-based and commission based arrangements, is recorded when payments are received in advance of our performance as required by the underlying agreements.

Click-based advertising and transaction revenue. Click-based revenue is derived primarily from click-through fees charged to our travel partners for traveler leads sent to the travel partners' website. We record revenue from click-through fees in the same period as when the traveler makes the click-through to the travel partners' website. Our instant booking transaction model revenue is comprised of commissions earned on all valid instant booking reservations. In the transaction model, our instant booking commission revenue is recorded at the time a traveler books a hotel transaction on our partner's site where we, as facilitator for such booking, do not assume associated cancellation risk. Under the other instant booking model, called the consumption model, we assume cancellation risk associated with booking, and we record that revenue in the month in which the traveler's stay at a hotel occurs. We have no post-booking service obligations for all instant booking transactions, regardless of the model chosen.

Display-based and subscription-based advertising. We recognize display-based advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract. Subscription-based advertising revenue is recognized ratably over the related contractual period over which service is delivered.

Attractions. We work with local operators, or merchant partners, to provide travelers with access to tours and activities in popular destinations worldwide, earning a commission for such service. While the merchant of record, we receive cash from the consumer at the time of booking of the destination activity and record these amounts, net of commissions, as deferred merchant payables on our consolidated balance sheet. Commission revenue is recorded as deferred revenue at the time of booking and later recognized when the consumer has completed the destination activity. We pay the destination activity operators after the travelers' use. In transactions where we are not the merchant of record, we invoice and receive commissions directly from our merchant partners and record commission revenue when the consumer has completed the destination activity.

Restaurants. We recognize reservation revenues (or per seated diner fees) on a transaction-by-transaction basis as diners are seated by our restaurant customers. Subscription-based revenue is recognized ratably over the related contractual period over which the service is delivered.

Vacation Rentals. We generate revenue from customers for online advertising services related to the listing of their properties for rent primarily on either a subscription basis over a fixed-term, or on a commission basis for transactions that are booked on our platform. Payments for term-based subscriptions received in advance of services being rendered are recorded as deferred revenue and recognized ratably to revenue on a straight-line basis over the listing period. Our commission revenue is primarily generated on our free-to-list option, in lieu of a pre-paid subscription fee. When a commissionable transaction is booked on our platform, we receive cash from the traveler that includes both our commission, which is recorded as deferred revenue, and the amount due to the property owner, which is recorded to deferred merchant payables on our consolidated balance sheet. We pay the amount due to the property owner and recognize our commission revenue at the time of the traveler's stay. Additional revenues are also derived on a pay-per-lead basis, as we provide leads for rental properties to property managers. Pay-per-lead revenue is billed and recognized in the period when the leads are delivered to the property managers.

New and Recently Adopted Accounting Pronouncements

New Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued new accounting guidance which assist entities in evaluating when a set of transferred assets and activities is a business. 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 any transactions occurring within the period of adoption. Early adoption is permitted, including for interim or annual periods in

which the financial statements have not been issued or made available for issuance. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued new accounting guidance to simplify the accounting for goodwill impairment. The guidance removes Step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. 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 guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019 with early adoption permitted for any goodwill impairment tests performed after January 1, 2017 and will be applied prospectively. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued new accounting guidance which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flow. 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, on a retrospective basis, with no material impact on our consolidated financial statements and related disclosures.

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. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We anticipate adopting this new guidance on January 1, 2017, on a retrospective basis, with no 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, with early adoption permitted. 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 are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures and our intended adoption date.

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, on a retrospective basis, and it is not expected to 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 in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures and our intended adoption date.

In February 2016, the FASB issued new accounting guidance on leases that is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet at the present value of the lease payments. 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. The guidance also requires new disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. 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 are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, as well as still determining our adoption date. We anticipate giving additional updates on our Form-10Q's during the first and second quarters of 2017.

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 U.S. GAAP, the Company's available-for-sale investments in equity securities with readily identifiable market value are remeasured to fair value each reporting period with changes in fair value recognized in accumulated other comprehensive income (loss). However, under the new accounting literature, fair value adjustments will be recognized through net income and could vary significantly quarter to quarter. For the investments currently accounted for under the cost method, an entity can elect to measure its investments, which do not have a readily determinable fair value, 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. 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. We anticipate adopting this new guidance on January 1, 2018 and are in the process of evaluating the impact of adopting this new guidance 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. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted for fiscal years beginning after December 15, 2016.

During 2016, we have made measurable 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. We will continue to evaluate the impact that this new guidance will have, if any, on the Company's consolidated financial statements and related disclosures and are still determining the method of adoption we will elect for this new guidance. We anticipate adopting this new guidance on January 1, 2018, and plan on giving additional updates on our progress and further conclusions on our Form-10Q's during the first and second quarters of 2017.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued new accounting guidance on stock compensation, or ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the consolidated statement of cash flows. The new guidance permits recognizing the impact of forfeitures on stock-based compensation as they occur or to recognize stock-based compensation expense net of expected forfeitures, requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the consolidated statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statement of cash flows.

We elected to early adopt the new guidance in the third quarter of 2016, which requires us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits and tax deficiencies in our provision for income taxes rather than additional paid-in capital for all periods in 2016. There was no impact to our provision for income taxes as previously reported for 2015 or prior periods. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a retrospective basis. As a result of the retrospective implementation of this guidance, the impact on the consolidated statement of cash flows for the years ended December 31, 2015 and 2014 was an increase of \$36 million and \$20 million in cash flows from operating activities with an offsetting reduction in cash flows from financing activities. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1 million reduction to retained earnings as of January 1, 2016.

Adoption of the new guidance resulted in the recognition of net excess tax expense and benefit in our provision for income taxes rather than additional paid-in capital. As a result, we recorded \$1 million of income tax benefit for the year ended December 31, 2016, and impacted our previously reported quarterly results for the three months ended March 31, 2016 and June 30, 2016, as follows:

	<u>Three months ended March 31, 2016</u>	
	<u>As Reported</u>	<u>As Adjusted ⁽¹⁾⁽²⁾</u>
(in millions, except per share data)		
Consolidated Statement of Operations:		
Operating income	\$ 42	\$ 42
Provision for income taxes	(11)	(9)
Net income	27	29
Basic EPS	\$ 0.19	\$ 0.20
Diluted EPS	\$ 0.18	\$ 0.20
Consolidated Statement of Cash Flows:		
Net cash provided by operating activities	\$ 120	\$ 124
Net cash used in financing activities	\$ (94)	\$ (98)

	<u>Three months ended June 30, 2016</u>	
	<u>As Reported</u>	<u>As Adjusted ⁽¹⁾</u>
(in millions, except per share data)		
Consolidated Statement of Operations:		
Operating income	\$ 48	\$ 47
Provision for income taxes	(11)	(10)
Net income	34	34
Basic EPS	\$ 0.23	\$ 0.23
Diluted EPS	\$ 0.23	\$ 0.23

	<u>Six months ended June 30, 2016</u>	
	<u>As Reported</u>	<u>As Adjusted ⁽²⁾</u>
(in millions)		
Consolidated Statement of Cash Flows:		
Net cash provided by operating activities	\$ 357	\$ 363
Net cash used in financing activities	\$ (123)	\$ (129)

- (1) The election to account for forfeitures as they occur did not have a material impact for the three months ended March 31, 2016 and resulted in an increase to stock-based compensation expense of approximately \$1 million for the three months ended June 30, 2016.
- (2) Includes the reclassification of cash flows related to excess tax benefits from financing activities to operating activities of \$4 million and \$2 million for the three months ending March 31, 2016 and June 30, 2016, respectively.

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

In April 2015, the FASB issued new accounting guidance which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This standard clarified whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The company prospectively adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Management

We are exposed to certain market risks, including changes in interest rates and foreign currency exchange rates that could adversely affect our results of operations or financial condition. Our exposure to market risk includes our revolving credit facilities, derivative instruments and cash and cash equivalents, short term and long term marketable securities, accounts receivable, intercompany receivables, accounts payable and deferred merchant payables denominated in foreign currencies. We manage our exposure to these risks through established policies and procedures and by assessing the anticipated near-term and long-term fluctuations in interest rates and foreign currency exchange rates. Our objective is to mitigate potential income statement, cash flow and market exposures from changes in foreign currency exchange rates and interest rates.

Interest Rates

Our current exposure to changes in interest rates relate primarily to our investment portfolio and the outstanding debt on our 2015 and 2016 Credit Facilities. Our interest income and expense is most sensitive to fluctuations in U.S. interest rates and Libor. Changes in interest rates affect the interest earned on our cash, cash equivalents and marketable securities and the fair value of those securities, as well as the amount of interest we pay on our outstanding debt.

We currently invest our excess cash in cash deposits at major global banks, money market mutual funds and marketable securities. Our investment policy and strategy are focused on preservation of capital and supporting our liquidity requirements. We invest in highly-rated securities, and our investment policy limits the amount of credit exposure to any one issuer. The policy requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss.

In order to provide a meaningful assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of our current investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on our investment positions as of December 31, 2016, a hypothetical 100 basis point increase in interest rates across all maturities would result in an approximate \$1 million decline in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity.

As of December 31, 2016, we had \$164 million of debt under our 2015 Credit Facility and 2016 Credit Facility, which both have a variable rate. The variable interest rate on the 2015 Credit Facility is based on current assumptions, leverage and LIBOR rates. The variable interest rate on the 2016 Credit Facility bears interest at LIBOR plus 112.5 basis points. Based on our current outstanding debt balance as of December 31, 2016, a 25 basis point change in our interest rates on our 2015 Credit Facility and 2016 Credit Facility would result in an increase or decrease to interest expense that would be less than \$1 million per annum. We currently do not hedge our interest rate risk; however, we are continually evaluating the interest rate market, and if we become increasingly exposed to potentially volatile movements in interest rates, and if these movements are material, this could cause us to adjust our financing strategy.

We did not experience any material financial impact from changes in interest rates for the years ended December 31, 2016, 2015 or 2014.

Foreign Currency Exchange Rates

We conduct business in certain international markets, primarily the European Union, the United Kingdom, Singapore and Australia. Because we operate in international markets, we have exposure to different economic climates, political arenas, tax systems and regulations that could affect foreign currency exchange rates.

Some of our foreign subsidiaries maintain their accounting records in their respective local currencies other than the U.S. dollar. Consequently, changes in foreign currency exchange rates may impact the translation of foreign financial statements into U.S. dollars. As a result, we face exposure to adverse movements in foreign currency exchange rates as the financial results of our international operations are translated from local currency, or functional currency, into U.S. dollars upon consolidation. If the U.S. dollar weakens against the local currency, the translation of these foreign-currency-denominated balances will result in increased net assets, revenue, operating expenses, operating income and net income. Similarly, our net assets, revenue, operating expenses, operating income and net income will decrease if the U.S. dollar strengthens against local currency. The effect of foreign currency exchange on our business historically has varied from quarter to quarter and may continue to do so, potentially materially. In order to provide a meaningful assessment of the foreign currency exchange rate risk associated with our overall financials, we performed a sensitivity analysis. A hypothetical 10% decrease of the foreign currency exchange rates relative to the U.S. dollar, or strengthening of the U.S. dollar, would generate an unrealized loss of approximately \$22 million related to a decrease in our net assets held in functional currencies other than the U.S. dollar as of December 31, 2016, which would initially be recorded to accumulated other comprehensive loss on our consolidated balance sheet.

In addition, foreign currency exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses. We recognize these transactional gains and losses (primarily Euro currency transactions) in our consolidated statements of operations and have recorded foreign currency exchange losses of \$6 million, \$6 million and \$11 million for the years ended December 31, 2016, 2015 and 2014, respectively, in interest income and other, net on our consolidated statements of operations. Future net transactional gains and losses are inherently difficult to predict as they are reliant on how the multiple currencies in which we transact fluctuate in relation to the U.S. dollar and other functional currencies, and the relative composition and denomination of current assets and liabilities each period.

We currently manage our exposure to foreign currency risk through internally established policies and procedures. To the extent practicable, we minimize our foreign currency exposures by maintaining natural hedges between our current assets and current liabilities in similarly denominated foreign currencies, as well as, using derivative financial instruments. We use foreign currency forward exchange contracts to manage certain short-term foreign currency risk to try and reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives.

Our objective is to hedge only those foreign currency exposures that can be confidently identified and quantified and that may result in significant impacts to our cash or the consolidated statement of operations. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We account for our outstanding derivative instruments as either assets or liabilities and carry them at fair value.

Our current foreign currency forward exchange contracts principally address foreign currency exchange fluctuation risk for the Euro versus the U.S. dollar. As of December 31, 2016 and 2015, we had outstanding forward currency contracts not designated as hedging contracts with a notional value of \$6 million and \$25 million, respectively. These contracts had maturities of less than 90 days. The fair value of these derivatives at both December 31, 2016 and 2015, were not material. For the years ended December 31, 2016, 2015 and 2014, gains related to our derivatives contracts were recorded to interest income and other, net on our consolidated statements of operations of \$2 million, \$2 million and \$1 million, respectively. A hypothetical 10% change of the foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant, would result in an approximate change of less than \$1 million in the fair value of our outstanding foreign currency forward exchange contracts at December 31, 2016, and a resulting equivalent gain or loss on our consolidated statement of operations. Refer to

“Note 6— *Financial Instruments*” in the notes to the consolidated financial statements in Item 8 for further detail on our derivative instruments.

As we increase our operations in international markets, our exposure to potentially volatile movements in foreign currency exchange rates increases. The economic impact to us of foreign currency exchange rate movements is linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our foreign currency risk strategies.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements and Supplementary Data:

Report of Independent Registered Public Accounting Firm	70
Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014.....	71
Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014	72
Consolidated Balance Sheets as of December 31, 2016 and 2015.....	73
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2016, 2015 and 2014	74
Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014	75
Notes to Consolidated Financial Statements	76

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
TripAdvisor, Inc.:

We have audited the accompanying consolidated balance sheets of TripAdvisor, Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TripAdvisor, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TripAdvisor, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 17, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts
February 17, 2017

TRIPADVISOR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year ended December 31,		
	2016	2015	2014
Revenue	\$ 1,480	\$ 1,492	\$ 1,246
Costs and expenses:			
Cost of revenue (1)	71	58	40
Selling and marketing (2)	756	692	502
Technology and content (2)	243	207	171
General and administrative (2) (Note 17)	143	210	128
Depreciation	69	57	47
Amortization of intangible assets	32	36	18
Total costs and expenses	1,314	1,260	906
Operating income	166	232	340
Other income (expense):			
Interest expense	(12)	(10)	(9)
Interest income and other, net (Note 18)	(3)	17	(9)
Total other income (expense), net	(15)	7	(18)
Income before income taxes	151	239	322
Provision for income taxes	(31)	(41)	(96)
Net income	<u>\$ 120</u>	<u>\$ 198</u>	<u>\$ 226</u>
Earnings per share attributable to common stockholders (Note 5):			
Basic	\$ 0.83	\$ 1.38	\$ 1.58
Diluted	\$ 0.82	\$ 1.36	\$ 1.55
Weighted average common shares outstanding (Note 5):			
Basic	145	144	143
Diluted	147	146	146
(1) Excludes amortization expense as follows:			
Amortization of acquired technology included in amortization of intangible assets	\$ 7	\$ 9	\$ 4
Amortization of website development costs included in depreciation	46	37	30
	<u>\$ 53</u>	<u>\$ 46</u>	<u>\$ 34</u>
(2) Includes stock-based compensation expense as follows:			
Selling and marketing	\$ 20	\$ 16	\$ 13
Technology and content	\$ 40	\$ 28	\$ 27
General and administrative	\$ 25	\$ 28	\$ 23

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

TRIPADVISOR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Year ended December 31,		
	2016	2015	2014
Net income	\$ 120	\$ 198	\$ 226
Other comprehensive income (loss):			
Foreign currency translation adjustments (1)	(14)	(33)	(31)
Reclassification adjustment on sale of business included in total other income (expense), net (Note 3)	—	1	—
Total other comprehensive loss	(14)	(32)	(31)
Comprehensive income	<u>\$ 106</u>	<u>\$ 166</u>	<u>\$ 195</u>

- (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. See “Note 15 — *Stockholders’ Equity*”.

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

TRIPADVISOR, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 6)	\$ 612	\$ 614
Short-term marketable securities (Note 6)	118	47
Accounts receivable, net of allowance for doubtful accounts of \$9 and \$6, respectively (Note 2)	189	180
Prepaid expenses and other current assets	31	24
Total current assets	950	865
Long-term marketable securities (Note 6)	16	37
Property and equipment, net (Note 7)	260	247
Intangible assets, net (Note 8)	167	176
Goodwill (Note 8)	736	732
Deferred income taxes, net (Note 10)	42	25
Other long-term assets	67	46
TOTAL ASSETS	\$ 2,238	\$ 2,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14	\$ 10
Deferred merchant payables (Note 2)	128	105
Deferred revenue	64	64
Current portion of debt (Note 9)	80	1
Taxes payable (Note 10)	10	9
Accrued expenses and other current liabilities (Note 11)	127	123
Total current liabilities	423	312
Long-term debt (Note 9)	91	200
Deferred income taxes, net (Note 10)	12	15
Other long-term liabilities (Note 12)	210	189
Total Liabilities	736	716
Commitments and contingencies (Note 13)		
Stockholders' equity: (Note 15)		
Preferred stock, \$0.001 par value	—	—
Authorized shares: 100,000,000		
Shares issued and outstanding: 0 and 0		
Common stock, \$0.001 par value	—	—
Authorized shares: 1,600,000,000		
Shares issued: 134,706,467 and 133,836,242		
Shares outstanding: 131,310,980 and 132,443,111		
Class B common stock, \$0.001 par value	—	—
Authorized shares: 400,000,000		
Shares issued and outstanding: 12,799,999 and 12,799,999		
Additional paid-in capital	831	741
Retained earnings	945	826
Accumulated other comprehensive loss	(77)	(63)
Treasury stock-common stock, at cost, 3,395,487 and 1,393,131 shares	(197)	(92)
Total Stockholders' Equity	1,502	1,412
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,238	\$ 2,128

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

TRIPADVISOR, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in millions, except share data)

	Common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance as of December 31, 2013	131,537,798	\$ —	12,799,999	\$ —	\$ 608	\$ 402	\$ —	\$ (145)	\$ 865	226
Net income						226				
Other comprehensive loss							(31)			
Issuance of common stock related to exercise of options and vesting of RSUs	777,667	—			3					3
Tax benefits on equity awards, net					20					20
Withholding taxes on net share settlements of equity awards					(33)					(33)
Fair value of stock options assumed in connection with acquisition (Note 3)					5					5
Stock-based compensation					70					70
Other								(73,464)		—
Balance as of December 31, 2014	132,315,465	\$ —	12,799,999	\$ —	\$ 673	\$ 628	\$ (31)	\$ (145)	\$ 1,125	198
Net income						198				
Other comprehensive loss							(32)			(32)
Issuance of common stock related to exercise of options and vesting of RSUs	1,520,777	—			12					12
Issuance of treasury stock as charitable contribution (Note 15)					14					14
Tax benefits on equity awards, net					35				53	67
Withholding taxes on net share settlements of equity awards					(73)					35
Stock-based compensation					80					80
Balance as of December 31, 2015	133,836,242	\$ —	12,799,999	\$ —	\$ 741	\$ 826	\$ (63)	\$ (92)	\$ 1,412	120
Net income						120				
Cumulative effect adjustment from adoption of ASU 2016-09 (Note 2)						(1)				(1)
Other comprehensive loss							(14)			(14)
Issuance of common stock related to exercise of options and vesting of RSUs	870,225	—			7					7
Repurchase of common stock								(105)		(105)
Withholding taxes on net share settlements of equity awards					(15)					(15)
Stock-based compensation					98					98
Balance as of December 31, 2016	134,706,467	\$ —	12,799,999	\$ —	\$ 831	\$ 945	\$ (77)	\$ (197)	\$ 1,502	98

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

TRIPADVISOR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year ended December 31,		
	2016	2015	2014
Operating activities:			
Net income	\$ 120	\$ 198	\$ 226
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	69	57	47
Amortization of intangible assets	32	36	18
Stock-based compensation expense (Note 4)	85	72	63
Non-cash contribution to charitable foundation (Note 17)	—	67	—
Gain on sale of business (Note 3)	—	(20)	—
Deferred tax benefit	(20)	(37)	(17)
Other, net	10	9	18
Changes in operating assets and liabilities, net of effects from acquisitions and other investments, and dispositions:			
Accounts receivable, prepaid expenses and other assets	(24)	(31)	(26)
Accounts payable, accrued expenses and other liabilities	7	13	18
Deferred merchant payables	21	15	(9)
Income tax receivables/payables, net	20	32	60
Deferred revenue	1	7	9
Net cash provided by operating activities	321	418	407
Investing activities:			
Capital expenditures, including internal-use software and website development	(72)	(109)	(81)
Acquisitions and other investments, net of cash acquired (Note 3)	(43)	(29)	(331)
Proceeds from sale of business, net of cash sold (Note 3)	—	25	—
Purchases of marketable securities	(166)	(205)	(251)
Sales of marketable securities	84	187	336
Maturities of marketable securities	32	71	93
Other investing activities, net	2	2	1
Net cash used in investing activities	(163)	(58)	(233)
Financing activities:			
Repurchase of common stock (Note 15)	(105)	—	—
Proceeds from Chinese credit facilities	7	4	13
Payments to Chinese credit facilities	(1)	(41)	(3)
Principal payments on 2011 credit facility	—	(300)	(40)
Proceeds from 2015 credit facility, net of financing costs	101	287	—
Payments to 2015 credit facility	(210)	(90)	—
Proceeds from 2016 credit facility, net of financing costs	73	—	—
Proceeds from exercise of stock options	7	12	3
Payment of withholding taxes on net share settlements of equity awards	(15)	(73)	(33)
Other financing activities, net	—	12	(1)
Net cash used in financing activities	(143)	(189)	(61)
Effect of exchange rate changes on cash and cash equivalents	(17)	(12)	(9)
Net (decrease) increase in cash and cash equivalents	(2)	159	104
Cash and cash equivalents at beginning of period	614	455	351
Cash and cash equivalents at end of period	\$ 612	\$ 614	\$ 455
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes, net of refunds	\$ 29	\$ 43	\$ 54
Cash paid during the period for interest	\$ 10	\$ 7	\$ 7
Supplemental disclosure of non-cash investing and financing activities:			
Stock-based compensation capitalized with internal-use software and website development costs	\$ 12	\$ 8	\$ 8
Capitalization of construction in-process related to build to suit lease	\$ —	\$ 6	\$ 52
Capital expenditures incurred but not yet paid related to build to suit lease	\$ —	\$ —	\$ 10

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

TRIPADVISOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND BUSINESS DESCRIPTION

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

On December 20, 2011 Expedia, Inc. completed a spin-off of TripAdvisor into a separate publicly traded Delaware corporation. We refer to this transaction as the “Spin-Off.” TripAdvisor’s common stock began trading on the NASDAQ as an independent public company on December 21, 2011 under the trading symbol “TRIP.”

On December 11, 2012, Liberty Interactive Corporation, or Liberty, purchased an aggregate of 4,799,848 shares of common stock of TripAdvisor from Barry Diller, our former Chairman of the Board of Directors and Senior Executive, and certain of his affiliates (the “Stock Purchase”). As a result, Liberty beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock.

On August 27, 2014, the entire beneficial ownership of our common stock and Class B common stock held by Liberty was acquired by Liberty TripAdvisor Holdings, Inc., or LTRIP. Simultaneously, Liberty, LTRIP’s former parent company, distributed, by means of a dividend, to the holders of its Liberty Ventures common stock, Liberty’s entire equity interest in LTRIP. We refer to this transaction as the Liberty Spin Off. As a result of the Liberty Spin-Off, effective August 27, 2014, LTRIP became a separate, publicly traded company holding 100% of Liberty’s interest in TripAdvisor.

As a result of these transactions, as of December 31, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 13.8% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.5% of the outstanding common stock. Because each share of Class B common stock is generally entitled to ten votes per share and each share of common stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing approximately 56.4% of our voting power.

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 worldwide. In addition to the flagship TripAdvisor brand, we manage and operate 23 other media brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector, which include; www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.com, www.cruise critic.com, www.familyvacationcritic.com, www.flipkey.com, www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.housetrip.com, www.independenttraveler.com, www.jetsetter.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, www.dimmi.com.au, and www.en.couverts.nl), www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.travelpod.com, www.tripbod.com, www.vacationhomerentals.com, and www.viator.com.

Seasonality

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel advertisers to market to potential travelers, and, therefore, our financial performance, tend to be seasonal as

well. As a result, our financial results tend to be seasonally highest in the third quarter of a year, as it is a key period for travel research and trip-taking, compared to the first and fourth quarters which represent seasonal low points. Further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying 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. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). We believe that the assumptions underlying our consolidated financial statements are reasonable. However, these consolidated financial statements do not present our future financial position, the results of our future operations and cash flows.

We have an operating subsidiary in China that has variable interests 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 activities of this affiliate. Our variable interest entity is not material for all periods presented.

Accounting Estimates

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

Reclassifications

Refer to our discussion in “Recently Adopted Accounting Pronouncements” below for required prior period reclassifications resulting from the early adoption of new accounting guidance. All other reclassifications, made to conform the prior period to the current presentation, were not material and had no net effect on our consolidated financial statements.

Revenue Recognition

We recognize revenue from our services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Deferred revenue, which primarily relates to our subscription-based and commission based arrangements, is recorded when payments are received in advance of our performance as required by the underlying agreements.

Click-based advertising and transaction revenue. Click-based revenue is derived primarily from click-through fees charged to our travel partners for traveler leads sent to the travel partners’ website. We record revenue from click-through fees in the same period as when the traveler makes the click-through to the travel partners’ website. Our instant booking transaction model revenue is comprised of commissions earned on all valid instant booking reservations. In a transaction model, our instant booking commission revenue is recorded at the time a traveler books a hotel transaction on our partner’s site where we, as facilitator for such booking, do not assume associated cancellation risk. Under the other instant booking model, called the consumption model, we assume cancellation risk

associated with booking, and we record that revenue in the month in which the traveler's stay at a hotel occurs. We have no post-booking service obligations for all instant booking transactions, regardless of the model chosen.

Display-based and subscription-based advertising. We recognize display-based advertising revenue ratably over the advertising period or upon delivery of advertising impressions, depending on the terms of the advertising contract. Subscription-based advertising revenue is recognized ratably over the related contractual period over which service is delivered.

Attractions. We work with local operators, or merchant partners, to provide travelers with access to tours and activities in popular destinations worldwide, earning a commission for such service. While the merchant of record, we receive cash from the consumer at the time of booking of the destination activity and record these amounts, net of commissions, as deferred merchant payables on our consolidated balance sheet. Commission revenue is recorded as deferred revenue at the time of booking and later recognized when the consumer has completed the destination activity. We pay the destination activity operators after the travelers' use. In transactions where we are not the merchant of record, we invoice and receive commissions directly from our merchant partners and record commission revenue when the consumer has completed the destination activity.

Restaurants. We recognize reservation revenues (or per seated diner fees) on a transaction-by-transaction basis as diners are seated by our restaurant customers. Subscription-based revenue is recognized ratably over the related contractual period over which the service is delivered.

Vacation Rentals. We generate revenue from customers for online advertising services related to the listing of their properties for rent primarily on either a subscription basis over a fixed-term, or on a commission basis for transactions that are booked on our platform. Payments for term-based subscriptions received in advance of services being rendered are recorded as deferred revenue and recognized ratably to revenue on a straight-line basis over the listing period. Our commission revenue is primarily generated on our free-to-list option, in lieu of a pre-paid subscription fee. When a commissionable transaction is booked on our platform, we receive cash from the traveler that includes both our commission, which is recorded as deferred revenue, and the amount due to the property owner, which is recorded to deferred merchant payables on our consolidated balance sheet. We pay the amount due to the property owner and recognize our commission revenue at the time of the traveler's stay. Additional revenues are also derived on a pay-per-lead basis, as we provide leads for rental properties to property managers. Pay-per-lead revenue is billed and recognized in the period when the leads are delivered to the property managers.

Cost of Revenue

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

Selling and Marketing

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

Technology and Content

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

General and Administrative

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

Cash, Cash Equivalents and Marketable Securities

Our marketable debt and equity securities have been classified and accounted for as available-for-sale. We determine the appropriate classification of our investments at the time of purchase and reevaluate the designations at each balance sheet date. We invest in highly-rated securities, and our investment policy limits the amount of credit exposure to any one issuer, industry group and currency. The policy requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss and providing liquidity of investments sufficient to meet our operating and capital spending requirements and debt repayments.

Our cash equivalents consist of highly liquid investments with maturities of 90 days or less at the date of purchase. In addition, we reevaluate at each reporting period the classification of our money market fund investments as cash equivalents, including the enactment of liquidity fees or redemption gates, if any, which may result in such money market fund investments being reclassified to short-term marketable securities. We classify our marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date and as to whether and when we intend to sell a particular security prior to its maturity date. Marketable debt securities with maturities greater than 90 days at the date of purchase and 12 months or less remaining at the balance sheet date will be classified as short-term and marketable debt securities with maturities greater than 12 months from the balance sheet date will generally be classified as long-term. We classify our marketable equity securities, limited to money market funds and mutual funds, as either short-term or long-term based on the nature of each security and its availability for use in current operations. Our marketable debt and equity securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income (loss) as a component of stockholders' equity. Fair values are determined for each individual security in the investment portfolio.

Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. We may sell certain of our marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration, liquidity, and duration management. The weighted average maturity of our total invested cash shall not exceed 18 months, and no security shall have a final maturity date greater than three years, according to our investment policy.

We continually review our available for sale securities to determine whether a decline in fair value below the carrying value is other than temporary. When evaluating an investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established. If we do not intend to sell the debt security, but it is probable that we will not collect all amounts due, then only the impairment due to the credit risk would be recognized in earnings and the remaining amount of the impairment would be recognized in accumulated other comprehensive loss within stockholders' equity.

Cash consists of cash deposits held in global financial institutions.

Other Investments

We record investments using the equity method generally when we have the ability to exercise significant influence over the investee. Equity investments without readily determinable fair values for which we do not have the ability to exercise significant influence are accounted for using the cost method of accounting and classified within long-term investments and other assets. 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. As of December 31, 2016 and 2015, we had \$14 million and \$0 million of cost method investments, respectively, recorded in other long-term assets on our consolidated balance sheets.

Fair Value Measurements

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We measure assets and liabilities at fair value based on the expected exit price, which is the amount that would be received on the sale of an asset or amount paid to transfer a liability, as the case may be, in an orderly transaction between market participants in the principal or most advantageous market in which we would transact. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability at the measurement date. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

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

Level 2—Valuations are based on observable inputs other than quoted 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.

Derivative Financial Instruments

Our goal in managing our foreign currency exchange risk is to reduce, to the extent practicable, our potential exposure to the changes that exchange rates might have on our earnings, cash flows and financial position. We do not use derivatives for trading or speculative purposes. We account for our derivative instruments as either assets or liabilities and carry them at fair value.

In certain circumstances, we enter into foreign currency forward exchange contracts (“forward contracts”) to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. Our derivative instruments or forward contracts entered into which are not designated as hedges as of December 31, 2016 are disclosed below in “Note 6—*Financial Instruments*” in the notes to the consolidated financial statements. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through current income. Monetary assets and liabilities denominated in a currency other than the functional currency of a given subsidiary are remeasured at spot rates in effect on the balance sheet date with the effects of changes in spot rates reported in other, net on our consolidated statements of operations. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not expected to be significant due to the short-term nature of the contracts, which to date, have had maturities at inception of 90 days or less. The net cash received or paid related to our derivative instruments are classified in other investing activities in our consolidated statements of cash flow.

We have not entered into any cash flow, fair value or net investment hedges as of December 31, 2016.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally due within 30 days and are recorded net of an allowance for doubtful accounts. We record accounts receivable at the invoiced amount. Collateral is not required for accounts receivable. We consider accounts outstanding longer than the contractual payment terms as past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due,

previous loss history, a specific customer's ability to pay its obligations to us, and the condition of the general economy and industry as a whole.

The following table presents the changes in our allowance for doubtful accounts for the periods presented:

	December 31,		
	2016	2015	2014
	(in millions)		
Allowance for doubtful accounts:			
Balance, beginning of period	\$ 6	\$ 7	\$ 3
Charges (recoveries) to earnings	4	3	3
Write-offs, net of recoveries and other adjustments	(1)	(4)	1
Balance, end of period	<u>\$ 9</u>	<u>\$ 6</u>	<u>\$ 7</u>

Property and Equipment, Including Website and Software Development Costs

We record property and equipment at cost, net of accumulated depreciation. We capitalize certain costs incurred during the application development stage related to the development of websites and internal use software when it is probable the project will be completed and the software will be used as intended. Capitalized costs include internal and external costs, if direct and incremental, and deemed by management to be significant. We expense costs related to the planning and post-implementation phases of software and website development as these costs are incurred. Maintenance and enhancement costs (including those costs in the post-implementation stages) are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the website or software resulting in added functionality, in which case the costs are capitalized.

We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is three to five years for computer equipment, capitalized software and website development, office furniture and other equipment. We depreciate leasehold improvements using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease.

Leases

We lease office space in many countries around the world under non-cancelable lease agreements. We generally lease our office facilities under operating lease agreements. Office facilities subject to an operating lease and the related lease payments are not recorded on our balance sheet. The terms of certain lease agreements provide for rental payments on a graduated basis, however, we recognize rent expense on a straight-line basis over the lease period in accordance with GAAP. Any lease incentives are recognized as reductions of rental expense on a straight-line basis over the term of the lease. The lease term begins on the date we become legally obligated for the rent payments or when we take possession of the office space, whichever is earlier.

We establish assets and liabilities for the estimated construction costs incurred under lease arrangements where we are considered the owner for accounting purposes only, or build-to-suit leases, to the extent we are involved in the construction of structural improvements or take construction risk prior to commencement of a lease. Upon occupancy of facilities under build-to-suit leases, we assess whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance under GAAP. If we continue to be the deemed owner, for accounting purposes, the facilities are accounted for as financing obligations.

We establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition for asset retirement obligations. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs and are included in other long-term liabilities on our consolidated balance sheet. Our asset retirement obligations were not material as of December 31, 2016 and December 31, 2015, respectively.

Business Combination

We account for acquired businesses using the purchase method of accounting which requires that the tangible assets and identifiable intangible assets acquired and assumed liabilities be recorded at the date of acquisition at their respective fair values. Any excess purchase price over the estimated fair value of the net tangible and intangible assets acquired is allocated to goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer and supplier relationships, acquired technology and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate.

In September 2015, the FASB issued new accounting guidance for measurement-period adjustments in a business combination. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and eliminates the requirement to account for measurement-period adjustments retrospectively. The effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. The guidance was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years with early adoption permitted for financial statements that have not been issued. The Company adopted this guidance in the first quarter of 2016 and had no material impact on our consolidated financial statements and related disclosures.

Recoverability of Goodwill and Indefinite-Lived Intangible Assets

Goodwill

We assess goodwill, which is not amortized, for impairment annually during the fourth quarter, or more frequently, if events and circumstances indicate impairment may have occurred. We test goodwill for impairment at the reporting unit level. Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. We evaluate our reporting units when changes in our operating structure occur, and if necessary, reassign goodwill using a relative fair value allocation approach. Once goodwill has been allocated to the reporting units, it no longer retains its identification with a particular acquisition and becomes identified with the reporting unit in its entirety. Accordingly, the fair value of the reporting unit as a whole is available to support the recoverability of its goodwill.

In the evaluation of goodwill for impairment, we generally first perform a qualitative assessment to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that the estimated fair value of the reporting unit is less than the carrying amount. However, the Company has the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Periodically, we may choose to forgo the initial qualitative assessment and proceed directly to a quantitative analysis to assist in our annual evaluation. When assessing goodwill for impairment, our decision to perform a qualitative impairment assessment for an individual reporting unit in a given year is influenced by a number of factors, such as the size of the reporting unit's goodwill, the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, and the amount of time in between quantitative fair value assessments and the date of acquisition to establish an updated baseline quantitative analysis. During a qualitative assessment, if we determine that it is not more likely than not that the implied fair value of the goodwill is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the implied fair value of the goodwill is less than its carrying amount, we then perform a quantitative assessment and compare the estimated fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its estimated fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

In determining the estimated fair values of reporting units in a quantitative goodwill impairment test, we generally use a blend, of the following recognized valuation methods: the income approach (discounted cash flows model) and the market valuation approach, which we believe compensates for the inherent risks of using either model on a stand-alone basis. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that we expect the reporting units to generate in the future. Our significant estimates in the discounted cash flows model include: weighted average cost of capital; long-term rate of growth and profitability of the reporting unit; income tax rates and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison to comparable publicly traded firms in similar lines of business and other precedent transactions. Our significant estimates in the market approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and/or income multiples in estimating the fair value of the reporting units. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate. We believe that the estimated fair values assigned to our reporting units in impairment tests are based on reasonable assumptions that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates. The use of different assumptions, estimates or judgments could trigger the need for an impairment charge, or materially increase or decrease the amount of any such impairment charge.

Indefinite-Lived Intangible Assets

Intangible assets that have indefinite lives are not amortized and are tested for impairment annually during the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Similar to the qualitative assessment for goodwill, we may assess qualitative factors to determine if it is more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount. If we determine that it is not more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount, no further testing is necessary. If, however, we determine that it is more likely than not that the implied fair value of the indefinite-lived intangible asset is less than its carrying amount, we compare the implied fair value of the indefinite-lived asset with its carrying amount. If the carrying value of an individual indefinite-lived intangible asset exceeds its implied fair value, the individual asset is written down by an amount equal to such excess. The assessment of qualitative factors is optional and at our discretion. We may bypass the qualitative assessment for any indefinite-lived intangible asset in any period and resume performing the qualitative assessment in any subsequent period. We base our measurement of fair value of indefinite-lived intangible assets, which consist of trademarks and tradenames as of December 31, 2016, using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate future revenues, the appropriate royalty rate and the weighted average cost of capital, however, such assumptions are inherently uncertain and actual results could differ from those estimates. The use of different assumptions, estimates or judgments could trigger the need for an impairment charge, or materially increase or decrease the amount of any such impairment charge.

Recoverability of Intangible Assets with Definite Lives and Other Long-Lived Assets

Intangible assets with definite lives and other long-lived assets are carried at cost and are amortized on a straight-line basis over their estimated useful lives of one to twelve years. The straight-line method of amortization is currently used for our definite-lived intangible assets as, to date, it approximates, or is our best estimate, of the distribution of the economic use of our identifiable intangible assets. We review the carrying value of long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable.

Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we assess the recoverability of the asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset of the group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair

value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured by the amount that the carrying values, of such asset groups, exceed their fair value and would be included in operating income on the consolidated statement of operations. We have not identified any circumstances that would warrant an impairment charge for any recorded definite lived or other long term assets, including our cost method investments, on our consolidated balance sheet at December 31, 2016.

Income Taxes

We record income taxes under the asset and liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider all relevant factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as assessing available tax planning strategies. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in a future tax return. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination.

Foreign Currency Translation and Transaction Gains and Losses

Our consolidated financial statements are reported in U.S. dollars. Certain of our subsidiaries outside of the United States use the related local currency as their functional currency and not the U.S. dollar. Therefore assets and liabilities of our foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity on our consolidated balance sheet.

We also have subsidiaries that have transactions in foreign currencies other than their functional currency. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in our consolidated statements of operations as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

Accordingly, we have recorded foreign currency exchange losses of \$4 million, \$4 million and \$10 million for the years ended December 31, 2016, 2015 and 2014, respectively, in interest income and other, net on our consolidated statement of operations. These amounts also include gains and losses, realized and unrealized, on foreign currency forward contracts.

Advertising Expense

We incur advertising expense, which includes traffic generation costs from search engines, affiliate program commissions, display advertising, and other online, and offline (including television) advertising expense, promotions and public relations to promote our business. We expense the costs associated with communicating the advertisements in the period in which the advertisement takes place. We initially capitalize and then expense the production costs associated with television advertisements in the period in which the advertisement first takes place.

For the years ended December 31, 2016, 2015 and 2014, we recorded advertising expense of \$543 million, \$507 million, and \$341 million, respectively, in selling and marketing expense on our consolidated statements of operations. As of December 31, 2016 and 2015, we had \$5 million and \$2 million, respectively, of prepaid marketing expenses included in prepaid expenses and other current assets on our consolidated balance sheets. We expect to fully expense our prepaid marketing asset of \$5 million as of December 31, 2016 to the consolidated statement of operations during 2017.

Stock-Based Compensation

Stock Options. The exercise price for all stock options granted by us to date has been equal to the market price of the underlying shares of common stock at the date of grant. In this regard, when making stock option awards, our practice is to determine the applicable grant date and to specify that the exercise price shall be the closing price of our common stock on the date of grant. The estimated grant-date fair value of stock options is calculated using a Black-Scholes Merton option-pricing model (“Black-Scholes model”). The Black-Scholes model incorporates assumptions to fair value stock-based awards, which includes the risk-free rate of return, expected volatility, expected term and expected dividend yield.

Our risk-free interest rate is based on the rates currently available on zero-coupon U.S. Treasury issues, in effect at the time of the grant, whose remaining maturity period most closely approximates the stock option’s expected term assumption. Our expected volatility is calculated by equally weighting the historical volatility and implied volatility on our own common stock. Historical volatility is determined using actual daily price observations of our common stock price over a period equivalent to or approximate to the expected term of our stock option grants to date. Implied volatility represents the volatility calculated from the observed prices of our actively traded options on our common stock, with remaining maturities in excess of six months and market prices approximate to the exercise prices of the stock option grant. We have estimated our expected term using historical exercise behavior and expected post-vest termination data for all 2016 and 2015 stock option grants. We estimated our expected term for all 2014 stock option grants using the simplified method, as we did not have sufficient historical exercise data on our common stock at that date from Spin-Off. Our expected dividend yield is zero, as we have not paid any dividends on our common stock to date and do not expect to pay any cash dividends for the foreseeable.

Our stock options generally have a term of ten years from the date of grant and generally vest equally over a four-year requisite service period. We amortize the grant-date fair value of our stock option grants as stock-based compensation expense over the vesting term on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date.

Restricted Stock Units. RSUs are stock awards that are granted to employees entitling the holder to shares of our common stock as the award vests. RSUs are measured at fair value based on the number of shares granted and the quoted price of our common stock at the date of grant. We amortize the fair value of RSUs as stock-based compensation expense over the vesting term of generally four years on a straight-line basis, with the amount of compensation expense recognized at any date at least equaling the portion of the grant-date fair value of the award that is vested at that date.

Performance-based stock options and RSUs vest upon achievement of certain company-based performance conditions and a requisite service period. On the date of grant, the fair value of a performance-based award is calculated using the same method as our service based stock options and RSUs described above. We then assess whether it is probable that the individual performance targets would be achieved. If assessed as probable, compensation expense will be recorded for these awards over the estimated performance period. At each reporting period, we will reassess the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive these awards, and subsequent events are not indicative of the reasonableness of our original estimates of fair value. In the third quarter of 2016 we adopted new accounting guidance from the FASB on stock compensation, or ASU 2016-09, as described in “Recently Adopted Accounting Pronouncements” below and have elected to account for forfeitures as they occur, rather than continue to estimate expected forfeitures.

Treasury Stock

Shares of our common stock repurchased are recorded at cost as treasury stock and result in the reduction of stockholders' equity in our consolidated balance sheet. We may reissue these treasury shares. When treasury shares are reissued, we use the average cost method for determining the cost of reissued shares. If the issuance price is higher than the cost, the excess of the issuance price over the cost is credited to additional paid-in-capital. If the issuance price is lower than the cost, the difference is first charged against any credit balance in additional paid-in-capital from the previous issuances of treasury stock and the remaining balance is charged to retained earnings.

Deferred Merchant Payables

We receive cash from travelers at the time of booking related to our vacation rental, attractions and transaction-based businesses and we record these amounts, net of commissions, on our consolidated balance sheets as deferred merchant payables. We pay the hotel, attraction provider or vacation rental owner after the travelers' use and subsequent billing from the hotel, attraction provider or vacation rental owner. Therefore, we receive cash from the traveler prior to paying the hotel, attraction provider or vacation rental owner, and this operating cycle represents a working capital source or use of cash to us. As long as these businesses grow, we expect that changes in working capital related to these transactions, depending on timing of payments and seasonality, will continue to impact operating cash flows. Our deferred merchant payables balance was \$128 million and \$105 million for the years ended December 31, 2016 and 2015, respectively, on our consolidated balance sheets.

Credit Risk and Concentrations

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of cash and cash equivalents, corporate debt securities, foreign currency exchange contracts, accounts receivable and customer concentrations. We maintain some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits. Our cash and cash equivalents are primarily composed of bank account balances with financial institutions primarily denominated in U.S. dollars, Euros, British pound sterling, and Australian dollars, as well as, money market funds. We invest in highly-rated corporate debt securities, and our investment policy limits the amount of credit exposure to any one issuer, industry group and currency. Our credit risk related to corporate debt securities is also mitigated by the relatively short maturity period required by our investment policy. Foreign currency exchange contracts are transacted with various international financial institutions with high credit standings, which generally have maturities of less than 90 days.

Our business is also subject to certain risks due to concentrations related to dependence on our relationships with our customers. For the years ended December 31, 2016, 2015 and 2014 our two most significant advertising partners, Expedia and Priceline, each accounted for more than 10% of our consolidated revenue and combined accounted for 46%, 46% and 46%, respectively, of our consolidated revenue. Nearly all of this concentration of revenue is recorded in our Hotel segment for these reporting periods. As of December 31, 2016 and 2015, Expedia accounted for 12% and 11%, respectively, of our total accounts receivable. Our overall credit risk related to accounts receivable is mitigated by the relatively short collection period.

Contingent Liabilities

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 disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment may be required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

Comprehensive Income (Loss)

Comprehensive income (loss) currently consists of net income, cumulative foreign currency translation adjustments, and unrealized gains and losses on available-for-sale securities, net of tax.

Earnings Per Share (“EPS”)

We compute basic earnings per share by taking net income divided by the weighted average number of common and Class B common shares outstanding during the period. Diluted earnings per share 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 earnings per share by dividing net income by the sum of the weighted average number of common and common equivalent shares outstanding during the period. For additional information on how we compute earnings per share, see Note 5 — *Earnings Per Share*.

New Accounting Pronouncements Not Yet Adopted

In January 2017, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance which assist entities in evaluating when a set of transferred assets and activities is a business. 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 any transactions occurring within the period of adoption. Early adoption is permitted, including for interim or annual periods in which the financial statements have not been issued or made available for issuance. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued new accounting guidance to simplify the accounting for goodwill impairment. The guidance removes Step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. 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 guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019 with early adoption permitted for any goodwill impairment tests performed after January 1, 2017 and will be applied prospectively. We are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued new accounting guidance which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flow. 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, on a retrospective basis, with no material impact on our consolidated financial statements and related disclosures.

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. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We anticipate adopting this new guidance on January 1, 2017, on a retrospective basis, with no 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, with early adoption permitted. 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 are in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures and our intended adoption date.

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, on a retrospective basis, and it is not expected to 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 in the process of evaluating the impact of adopting this new guidance on our consolidated financial statements and related disclosures and our intended adoption date.

In February 2016, the FASB issued new accounting guidance on leases that is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet at the present value of the lease payments. 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. The guidance also requires new disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. 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 are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, as well as still determining our adoption date. We anticipate giving additional updates on our Form-10Q's during the first and second quarters of 2017.

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 U.S. GAAP, the Company's available-for-sale investments in equity securities with readily identifiable market value are remeasured to fair value each reporting period with changes in fair value recognized in accumulated other comprehensive income (loss). However, under the new accounting literature, fair value adjustments will be recognized through net income and could vary significantly quarter to quarter. For the investments currently accounted for under the cost method, an entity can elect to measure its investments, which do not have a readily determinable fair value, 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. 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. We anticipate adopting this new guidance on January 1, 2018 and are in the process of evaluating the impact of adopting this new guidance 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. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted for fiscal years beginning after December 15, 2016.

During 2016, we have made measurable 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. We will continue to evaluate the impact that this new guidance will have, if any, on the Company's consolidated financial statements and related

disclosures and are still determining the method of adoption we will elect for this new guidance. We anticipate adopting this new guidance on January 1, 2018, and plan on giving additional updates on our progress and further conclusions on our Form-10Q's during the first and second quarters of 2017.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued new accounting guidance on stock compensation, or ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the consolidated statement of cash flows. The new guidance permits recognizing the impact of forfeitures on stock-based compensation as they occur or to recognize stock-based compensation expense net of expected forfeitures, requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the consolidated statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statement of cash flows.

We elected to early adopt the new guidance in the third quarter of 2016, which requires us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits and tax deficiencies in our provision for income taxes rather than additional paid-in capital for all periods in 2016. There was no impact to our provision for income taxes as previously reported for 2015 or prior periods. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a retrospective basis. As a result of the retrospective implementation of this guidance, the impact on the consolidated statement of cash flows for the years ended December 31, 2015 and 2014 was an increase of \$36 million and \$20 million in cash flows from operating activities with an offsetting reduction in cash flows from financing activities. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1 million reduction to retained earnings as of January 1, 2016.

Adoption of the new guidance resulted in the recognition of net excess tax expense and benefit in our provision for income taxes rather than additional paid-in capital. As a result, we recorded \$1 million of income tax benefit for the year ended December 31, 2016, and impacted our previously reported quarterly results for the three months ended March 31, 2016 and June 30, 2016, as follows:

	Three months ended March 31, 2016	
	As Reported	As Adjusted ⁽¹⁾⁽²⁾
(in millions, except per share data)		
Consolidated Statement of Operations:		
Operating income	\$ 42	\$ 42
Provision for income taxes	(11)	(9)
Net income	27	29
Basic EPS	\$ 0.19	\$ 0.20
Diluted EPS	\$ 0.18	\$ 0.20
Consolidated Statement of Cash Flows:		
Net cash provided by operating activities	\$ 120	\$ 124
Net cash used in financing activities	\$ (94)	\$ (98)

	Three months ended June 30, 2016			
	<u>As Reported</u>		<u>As Adjusted ⁽¹⁾</u>	
	(in millions, except per share data)			
Consolidated Statement of Operations:				
Operating income	\$	48	\$	47
Provision for income taxes		(11)		(10)
Net income		34		34
Basic EPS	\$	0.23	\$	0.23
Diluted EPS	\$	0.23	\$	0.23

	Six months ended June 30, 2016			
	<u>As Reported</u>		<u>As Adjusted ⁽²⁾</u>	
	(in millions)			
Consolidated Statement of Cash Flows:				
Net cash provided by operating activities	\$	357	\$	363
Net cash used in financing activities	\$	(123)	\$	(129)

- (1) The election to account for forfeitures as they occur did not have a material impact for the three months ended March 31, 2016 and resulted in an increase to stock-based compensation expense of approximately \$1 million for the three months ended June 30, 2016.
- (2) Includes the reclassification of cash flows related to excess tax benefits from financing activities to operating activities of \$4 million and \$2 million for the three months ending March 31, 2016 and June 30, 2016, respectively.

In April 2015, the FASB issued new accounting guidance which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This standard clarified whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The company prospectively adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

NOTE 3: ACQUISITIONS AND DISPOSITIONS

We acquired a number of businesses during the years ended December 31, 2016, 2015 and 2014. These business combinations were accounted for as purchases of businesses under the acquisition method. The fair value of purchase consideration has been allocated to tangible and identifiable intangible assets acquired and liabilities assumed, based on their respective fair values on the acquisition date, with the remaining amount recorded to goodwill. Acquired goodwill represents the premium we paid over the fair value of the net tangible and intangible assets acquired. We paid a premium in each of these transactions for a number of reasons, including expected operational synergies, the assembled workforces, and the future development initiatives of the assembled workforces. The results of each of these acquired businesses have been included in the consolidated financial statements beginning on the respective acquisition dates. Pro-forma results of operations for these acquisitions have not been presented as the financial impact to our consolidated financial statements, both individually and in aggregate, would not be materially different from historical results. For the years ended December 31, 2016, 2015 and 2014, acquisition-related costs were expensed as incurred and were \$1 million, \$1 million and \$4 million, respectively, and are included in general and administrative expenses on our consolidated statements of operations.

2016 Acquisition of Businesses

During the year ended December 31, 2016, we completed five acquisitions with a total purchase price of \$34 million. The Company paid net cash consideration of \$28 million, which is net of \$4 million of cash acquired, and includes \$2 million in future holdback payments, which we currently plan to settle in Company common stock. The

cash consideration was paid primarily from our U.S. cash. We acquired 100% of the outstanding capital stock of the following companies: Tous Au Restaurant, a leading restaurant event week brand in France, purchased in January 2016; HouseTrip, a European-based vacation rental website, purchased in April 2016; Citymaps, a social mapping platform, purchased in August 2016; Sneat, a provider of a mobile reservation platform for restaurants in France, purchased in October 2016; and Couverts, a provider of an online and mobile reservations platform for restaurants in the Netherlands, purchased in October 2016.

The purchase price allocation of our 2016 acquisitions is preliminary and subject to revision as more information becomes available, but in any case will not be revised beyond twelve months after the acquisition date and any change to the fair value of assets acquired or liabilities assumed will lead to a corresponding change to the purchase price allocable to goodwill in the period the adjustment is determined. The purchase price allocation is not yet finalized for income tax-related balances for Citymaps.

The aggregate purchase price consideration of \$34 million was allocated to the fair value of assets acquired and liabilities assumed as follows, in millions:

	Total
Goodwill (1)	\$ 17
Intangible assets (2)	25
Net tangible assets (liabilities) (3)	(8)
Total purchase price consideration (4)	<u>\$ 34</u>

- (1) Goodwill is not deductible for tax purposes.
- (2) Identifiable definite-lived intangible assets acquired during 2016 were comprised of trade names of \$4 million with a weighted average life of 10 years, customer lists and supplier relationships of \$4 million with a weighted average life of 6 years, subscriber relationships of \$5 million with a weighted average life of approximately 7 years, and technology and other of \$12 million with a weighted average life of approximately 5 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2016 was 6 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.
- (3) Primarily includes cash acquired of \$4 million, accounts receivable of \$2 million, and liabilities assumed, including accrued expenses and deferred merchant payables of \$3 million and \$10 million, respectively, which reflect their respective fair values at acquisition.
- (4) Subject to adjustment based on (i) final working capital adjustment calculations to be determined for Sneat and Couverts, and (ii) indemnification obligations for general representations and warranties of the acquired company stockholders.

2016 Other Investments

During the fourth quarter of 2016, we purchased a total of \$14 million of cost method investments in the equity securities of the following privately-held companies: Eatigo International PTE Ltd, a leading restaurant reservation business in southeast Asia; EatWith Media Ltd, an Israeli-based business which helps match travelers with local chefs for a unique dining experience; and Traxo, Inc., a U.S. based company providing software-driven itinerary aggregation and loyalty program management solutions. These investments were recorded to other long-term assets on our consolidated balance sheet on the acquisition date. The cash consideration was paid primarily from our international subsidiaries.

2015 Acquisition of Businesses

During the year ended December 31, 2015, we completed three acquisitions for a total purchase price consideration of \$28 million and paid in cash. The cash consideration was paid primarily from our international subsidiaries. We acquired 100% of the outstanding capital stock of the following companies: ZeTrip, a personal journal app that helps users log activities, including places they have visited and photos they have taken, purchased in January 2015; BestTables, a provider of an online and mobile reservations platform for restaurants in Portugal

and Brazil, purchased in March 2015; and Dimmi, a provider of an online and mobile reservations platform for restaurants in Australia, purchased in May 2015.

The aggregate purchase price consideration of \$28 million was allocated to the fair value of assets acquired and liabilities assumed as follows, in millions:

	Total
Goodwill (1)	\$ 17
Intangible assets (2)	12
Net tangible assets (liabilities)	1
Deferred tax liabilities, net	(2)
Total purchase price consideration (3)	\$ 28

- (1) Goodwill is not deductible for tax purposes.
- (2) Identifiable definite-lived intangible assets acquired during 2015 were comprised of trade names of \$2 million with a weighted average life of approximately 10 years, customer lists and supplier relationships of \$7 million with a weighted average life of approximately 6 years and technology and other of \$3 million with a weighted average life of approximately 2 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2015 was 6 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.
- (3) Subject to adjustment based on indemnification obligations for general representations and warranties of certain acquired company stockholders.

2015 Sale of Business

In August 2015, we sold 100% interest in one of our Chinese subsidiaries to an unrelated third party for \$28 million in cash consideration. Accordingly, we deconsolidated \$11 million of assets (which included \$3 million of cash sold) and \$4 million of liabilities from our consolidated balance sheet and recognized a \$20 million gain on sale of subsidiary in our consolidated statements of operations in “Interest income and other, net” during the year ended December 31, 2015.

2014 Acquisition of Businesses

In August 2014, we completed our acquisition of Viator, Inc., a leading resource for researching and booking destination activities around the world. Our total purchase price was \$192 million, for all the outstanding shares of capital stock of Viator, consisting of approximately \$187 million in cash consideration (or \$132 million, net of cash acquired from Viator of \$55 million) and the value of certain Viator stock options that were assumed. We issued 100,595 TripAdvisor stock options related to the assumed Viator stock options. The fair value of the earned portion of assumed stock options was \$5 million and is included in the purchase price, with the remaining fair value of \$3 million resulting in post-acquisition compensation expense recognized ratably over three years from the date of acquisition. The total cash consideration was paid from one of our U.S. based subsidiaries.

During the year ended December 31, 2014, we completed six other acquisitions for a total purchase price consideration of \$208 million, for which the Company paid total cash consideration of \$199 million, which is net of cash acquired of \$7 million and approximately \$2 million in holdbacks for general representations and warranties of the respective sellers, which has been subsequently paid by the Company. The cash consideration was paid primarily from our international subsidiaries. We acquired 100% of the outstanding shares of capital stock for the following companies; Vacation Home Rentals, a U.S.-based vacation rental website featuring properties around the world purchased in May 2014; London-based Tripbod, a travel community that helps connect travelers to local experts purchased in May 2014; Lafourchette, a provider of an online and mobile reservations platform for restaurants in Europe purchased in May 2014; MyTable and Restopolis, both providers of an online and mobile reservations platform for restaurants in Italy purchased in October 2014; and Iens, a provider of an online and mobile reservations platform for restaurants in the Netherlands purchased in December 2014. During the year ended December 31, 2014, all 2014 acquisitions accounted for approximately 3% of consolidated revenue for the year.

The aggregate purchase price consideration of \$400 million was allocated to the fair value of assets acquired and liabilities assumed as follows, in millions:

	Total	
Goodwill (1)	\$	253
Intangible assets (2)		194
Net tangible assets (liabilities) (3)		(7)
Deferred tax liabilities, net		(40)
Total purchase price consideration	\$	<u>400</u>

- (1) Goodwill in the amount of \$5 million is expected to be deductible for tax purposes.
- (2) Identifiable definite-lived intangible assets acquired during 2014 were comprised of trade names of \$44 million with a weighted average life of 10 years, customer lists and supplier relationships of \$82 million with an approximate weighted average life of 7 years, subscriber relationships of \$25 million with a weighted average life of 6 years and developed technology and other of \$43 million with an approximate weighted average life of 5 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of the companies during 2014 was approximately 7 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.
- (3) Includes assets acquired, including cash of \$62 million and accounts receivable of \$25 million and liabilities assumed, including deferred merchant payables of \$76 million, accrued expenses and other current liabilities of \$15 million and deferred revenue of \$5 million which reflect their respective fair values at acquisition date.

NOTE 4: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

Stock-based Compensation Expense

The following table presents the amount of stock-based compensation expense related to stock-based awards, primarily stock options and RSUs, on our consolidated statements of operations during the periods presented:

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Selling and marketing	\$ 20	\$ 16	\$ 13
Technology and content	40	28	27
General and administrative	25	28	23
Total stock-based compensation expense	85	72	63
Income tax benefit from stock-based compensation expense	(31)	(26)	(24)
Total stock-based compensation expense, net of tax effect	<u>\$ 54</u>	<u>\$ 46</u>	<u>\$ 39</u>

During the years ended December 31, 2016, 2015 and 2014, we capitalized \$12 million, \$8 million and \$8 million, respectively, of stock-based compensation expense as internal-use software and website development costs.

Stock and Incentive Plans

On December 20, 2011, our 2011 Stock and Annual Incentive Plan became effective and we filed Post-Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 (File No. 333-178637) (the “Prior Registration Statement”) with the Securities and Exchange Commission, registering a total of 17,500,000 shares of our common stock, of which 17,400,000 shares were issuable in connection with grants of equity-based awards under our 2011 Incentive Plan (7,400,000 of which shares were originally registered on the Form S-4 and 10,000,000 of which shares were first registered on the Prior Registration Statement) and 100,000 shares were issuable under our Deferred Compensation Plan for Non-Employee Directors (refer to “Note 14— *Employee Benefit Plans*” below for information on our Deferred Compensation Plan for Non-Employee Directors).

At our annual meeting of stockholders held on June 28, 2013 (the “Annual Meeting”), our stockholders approved an amendment to our 2011 Stock and Annual Incentive Plan to, among other things, increase the aggregate number of shares of common stock authorized for issuance thereunder by 15,000,000 shares. We refer to our 2011 Stock and Annual Incentive Plan, as amended by the amendment as the “2011 Incentive Plan.”

On September 12, 2014, we filed a Registration Statement on Form S-8 with respect to up to 100,595 shares of our common stock for issuance under the Viator, Inc. 2010 Stock Incentive Plan, as amended (the “Viator Plan”). Pursuant to the Amended and Restated Agreement and Plan of Merger among TripAdvisor LLC; Vineyard Acquisition Corporation and Viator, Inc., dated as of July 24, 2014 (the “Merger Agreement”), Vineyard Acquisition Corporation merged with and into Viator, Inc. with Viator, Inc. surviving as a wholly-owned subsidiary of the Company. In accordance with the Merger Agreement, we assumed certain outstanding options to purchase shares of common stock of Viator granted under the Viator Plan (the “Assumed Options”). As a result of this assumption, the Assumed Options were converted into options to purchase shares of our common stock. We do not intend to grant new equity or equity-based awards under the Viator Plan.

Pursuant to the 2011 Incentive Plan, we may, among other things, grant RSUs, restricted stock, stock options and other stock-based awards to our directors, officers, employees and consultants. The summary of the material terms of the 2011 Incentive Plan is qualified in its entirety by the full text of the 2011 Incentive Plan previously filed.

As of December 31, 2016, the total number of shares available for issuance under the 2011 Incentive Plan is 15,051,221 shares. All shares of common stock issued in respect of the exercise of options or other equity awards since Spin-Off have been issued from authorized, but unissued common stock.

Stock Based Award Activity and Valuation

2016 Stock Option Activity

During the year ended December 31, 2016, we have issued 1,063,672 of primarily service based non-qualified stock options from the 2011 Incentive Plan. These stock options generally have a term of ten years from the date of grant and generally vest equally over a four-year requisite service period.

A summary of our stock option activity is presented below:

	<u>Options Outstanding</u> (in thousands)	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Life</u> (in years)	<u>Aggregate Intrinsic Value</u> (in millions)
Options outstanding at December 31, 2015	5,720	\$ 53.71		
Granted	1,064	63.43		
Exercised (1)	(733)	31.58		
Cancelled or expired	(233)	70.76		
Options outstanding as of December 31, 2016	<u>5,818</u>	\$ 57.60	5.5	\$ 25
Exercisable as of December 31, 2016	<u>2,796</u>	\$ 42.95	4.3	\$ 24

- (1) Inclusive of 318,773 options, which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and the minimum amount of required employee withholding taxes. Potential shares which 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 consolidated statements of cash flows.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on NASDAQ as of

December 31, 2016 was \$46.37. The total intrinsic value of stock options exercised for the years ended December 31, 2016, 2015 and 2014 were \$24 million, \$149 million, and \$75 million, 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:

	December 31,		
	2016	2015	2014
Risk free interest rate	1.20%	1.58%	1.79%
Expected term (in years)	4.85	5.42	5.80
Expected volatility	41.81%	41.79%	44.04%
Expected dividend yield	— %	— %	— %

The weighted-average grant date fair value of options granted, excluding Assumed Options, was \$22.95, \$33.02, and \$46.65 for the years ended December 31, 2016, 2015 and 2014, respectively. The weighted-average grant date fair value of Assumed Options was \$80.31 for the year ended December 31, 2014. The total fair value of stock options vested for the years ended December 31, 2016, 2015 and 2014 were \$28 million, \$36 million, and \$34 million, respectively.

2016 RSU Activity

During the year ended December 31, 2016, we issued 2,015,898 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:

	RSUs Outstanding (in thousands)	Weighted Average Grant- Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of December 31, 2015	1,750	\$ 79.02	
Granted	2,016	63.71	
Vested and released (1)	(627)	76.02	
Cancelled	(283)	73.06	
Unvested RSUs outstanding as of December 31, 2016	<u>2,856</u>	\$ 69.35	\$ 132

- (1) Inclusive of 173,429 RSUs withheld to satisfy employee minimum tax withholding requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 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 consolidated statements of cash flows.

Cash received from stock option exercises for the years ended December 31, 2016, 2015 and 2014, respectively, were \$7 million, \$12 million and \$3 million. Total current income tax benefits during the years ended December 31, 2016, 2015, and 2014 associated with the exercise or settlement of TripAdvisor stock-based awards held by our employees were \$21 million, \$63 million and \$32 million, respectively.

Unrecognized Stock-Based Compensation

A summary of our remaining unrecognized compensation expense and the weighted average remaining amortization period at December 31, 2016 related to our non-vested stock options and RSU awards is presented below (in millions, except per year information):

	Stock Options	RSUs
Unrecognized compensation expense	\$ 48	\$ 149
Weighted average period remaining (in years)	2.3	2.8

NOTE 5: EARNINGS PER SHARE

Basic Earnings Per Share Attributable to Common Stockholders

We compute basic earnings per share (“Basic EPS”) by dividing net income by the weighted average number of common shares outstanding during the period. We compute the weighted average number of common shares outstanding during the reporting period using the total of common stock and Class B common stock outstanding as of the last day of the previous year end reporting period plus the weighted average of any additional shares issued and outstanding less the weighted average of any common shares repurchased during the reporting period.

Diluted Earnings Per Share Attributable to Common Stockholders

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

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise 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:

	Year ended December 31,		
	2016	2015	2014
Numerator:			
Net income	\$ 120	\$ 198	\$ 226
Denominator:			
Weighted average shares used to compute Basic EPS	145,443	143,836	142,721
Weighted average effect of dilutive securities:			
Stock options	1,129	1,839	2,734
RSUs and other dilutive securities	321	292	345
Weighted average shares used to compute Diluted EPS	146,893	145,967	145,800
Basic EPS	\$ 0.83	\$ 1.38	\$ 1.58
Diluted EPS	\$ 0.82	\$ 1.36	\$ 1.55

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

	Year ended December 31,		
	2016(1)	2015(2)	2014(3)
Stock options	3,019	2,142	1,450
RSUs	860	562	191
Total	3,879	2,704	1,641

- (1) These totals do not include 125,000 performance based options and 12,799 performance based RSUs representing the right to acquire 137,799 shares of common stock for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.
- (2) These totals do not include 66,666 performance based options and 12,799 performance based RSUs representing the right to acquire 79,465 shares of common stock for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.
- (3) These totals do not include 66,666 performance based options and 44,000 performance based RSUs representing the right to acquire 110,666 shares of common stock, for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.

The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

NOTE 6: FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Marketable Securities

The following tables show our cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short and long-term marketable securities as of December 31, 2016 and December 31, 2015 (in millions):

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

December 31, 2015							
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short- Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 598	\$ —	\$ —	\$ 598	\$ 598	\$ —	\$ —
Level 1:							
Money market funds	11	—	—	11	11	—	—
Level 2:							
U.S. agency securities	13	—	—	13	—	9	4
U.S. treasury securities	16	—	—	16	4	12	—
Certificates of deposit	5	—	—	5	—	4	1
Commercial paper	1	—	—	1	—	1	—
Corporate debt securities	54	—	—	54	1	21	32
Subtotal	89	—	—	89	5	47	37
Total	\$ 698	\$ —	\$ —	\$ 698	\$ 614	\$ 47	\$ 37

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

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

There were no material realized gains or losses related to sales of our marketable securities for the years ended December 31, 2016, 2015, and 2014. 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 December 31, 2016.

Derivative Financial Instruments

Our current forward contracts are not designated as hedges and have current maturities of less than 90 days. Consequently, any gain or loss resulting from the change in fair value was recognized in our consolidated statement of operations. We recorded a net gain of \$2 million, \$2 million, and \$1 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to our settled and outstanding forward contracts in our consolidated statements of operations in “Interest income and other, net.”

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

	December 31, 2016	December 31, 2015
	(in millions)	
Foreign currency exchange-forward contracts (1)(2)	\$ 6	\$ 25

- (1) Derivative contracts address foreign currency exchange fluctuations for the Euro versus the U.S. dollar. The Company was entered into two outstanding derivative contracts as of December 31, 2016.
- (2) The fair value of our derivatives are not material for all periods presented and are reported as assets in prepaid expenses and other current assets on our consolidated balance sheets. We measure the fair value of our outstanding or unsettled derivatives using Level 2 fair value inputs, as we use a pricing model that takes into account the contract terms as well as current foreign currency exchange rates in active markets.

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

Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include 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 consolidated balance sheets as of December 31, 2016 and December 31, 2015, respectively. The carrying value of the long-term debt from our 2015 Credit Facility bears interest at a variable rate and therefore is also considered to approximate fair value.

We also hold investments in equity securities of privately-held companies of approximately \$14 million at December 31, 2016. These investments were purchased during the fourth quarter of 2016, and are accounted for under the cost method and included in "Other long-term assets" in the Company's consolidated balance sheet. As of December 31, 2016, we did not estimate the fair value of these cost-method investments because there were no identified events or changes in circumstances, since acquisition, which may have a significant adverse impact on the carrying values of these investments. Refer to “Note 3— *Acquisitions and Dispositions*” above for further information on these investments.

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

NOTE 7: PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following for the periods presented:

	December 31, 2016	December 31, 2015
	(in millions)	
Capitalized software and website development	\$ 153	\$ 127
Building (1)	123	123
Leasehold improvements	39	32
Computer equipment and purchased software	37	36
Furniture, office equipment and other	19	17
	<u>371</u>	<u>335</u>
Less: accumulated depreciation	(111)	(88)
Total	<u>\$ 260</u>	<u>\$ 247</u>

- (1) The Company is deemed for accounting purposes to be the owner of its corporate headquarters building under GAAP, and depreciates the asset over its estimated useful life of 40 years on a straight-line basis. Refer to “Note 13 – *Commitments and Contingencies*,” for additional information on our corporate headquarters lease.

As of December 31, 2016 and 2015, our recorded capitalized software and website development costs, net of accumulated amortization, were \$86 million and \$71 million, respectively. For the years ended December 31, 2016 and 2015, we capitalized \$62 million and \$52 million, respectively, related to software and website development costs. For the years ended December 31, 2016, 2015 and 2014, we recorded amortization of capitalized software and website development costs of \$46 million, \$37 million and \$30 million, respectively, which is included in depreciation expense on our consolidated statements of operations for those years.

During the year ended December 31, 2016, we retired and disposed of property and equipment, primarily capitalized software and website development and computer equipment, which were no longer in use and fully depreciated with a total cost of \$45 million.

NOTE 8: GOODWILL AND INTANGIBLE ASSETS, NET

The following table summarizes our goodwill activity by segment for the periods presented:

	Hotel	Non-Hotel	Consolidated
	(in millions)		
Balance as of December 31, 2014	\$ 442	\$ 292	\$ 734
Acquisitions (1)	1	16	17
Disposition	(1)	—	(1)
Other adjustments (2)	—	(18)	(18)
Balance as of December 31, 2015	<u>\$ 442</u>	<u>\$ 290</u>	<u>\$ 732</u>
Acquisitions (1)	10	7	17
Other adjustments (2)	(1)	(12)	(13)
Ending balance as of December 31, 2016	<u>\$ 451</u>	<u>\$ 285</u>	<u>\$ 736</u>

- (1) The additions to goodwill relate to our business acquisitions. See “Note 3— *Acquisitions and Dispositions*,” for further information.
- (2) Primarily related to impact of changes in foreign currency exchange rates to goodwill.

Intangible assets, which were acquired in business combinations and recorded at fair value on the date of purchase, consist of the following for the periods presented:

	December 31,	
	2016	2015
	(in millions)	
Intangible assets with definite lives	\$ 217	\$ 198
Less: accumulated amortization	(80)	(52)
Intangible assets with definite lives, net	137	146
Intangible assets with indefinite lives	30	30
Total	<u>\$ 167</u>	<u>\$ 176</u>

Amortization expense was \$32 million, \$36 million, and \$18 million, respectively, for the years ended December 31, 2016, 2015 and 2014. Our indefinite-lived intangible assets relate to trade names and trademarks.

There were no impairment charges recognized to our consolidated statement of operations during the years ended December 31, 2016, 2015 and 2014 related to our goodwill or indefinite-lived intangible assets.

The following table presents the components of our intangible assets with definite lives for the periods presented:

	Weighted Average Remaining Life (in years)	December 31, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in millions)			(in millions)		
Trade names and trademarks	7.8	\$ 56	(14)	\$ 42	\$ 53	(9)	\$ 44
Customer lists and supplier relationships	4.6	84	(31)	53	82	(20)	62
Subscriber relationships	4.8	33	(15)	18	29	(9)	20
Technology and other	3.4	44	(20)	24	34	(14)	20
Total	5.4	<u>\$ 217</u>	<u>(80)</u>	<u>\$ 137</u>	<u>\$ 198</u>	<u>(52)</u>	<u>\$ 146</u>

Refer to “Note 3— *Acquisitions and Dispositions*” above for a discussion of definite lived intangible assets acquired in business combinations during the years ended December 31, 2016 and 2015.

Intangible assets with definite lives are amortized on a straight-line basis. The estimated amortization expense for intangible assets with definite lives for each of the next five years, and the expense thereafter, assuming no subsequent impairment of the underlying assets, is expected to be as follows (in millions):

2017	\$ 31
2018	28
2019	26
2020	21
2021	14
2022 and thereafter	17
Total	<u>\$ 137</u>

NOTE 9: DEBT

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

	December 31, 2016	December 31, 2015
	(in millions)	
Short-Term Debt:		
Chinese Credit Facilities	\$ 7	\$ 1
2016 Credit Facility	73	—
Total Short-Term Debt (1)	<u>\$ 80</u>	<u>\$ 1</u>
Long-Term Debt:		
2015 Credit Facility	\$ 91	\$ 200
Total Long-Term Debt	<u>\$ 91</u>	<u>\$ 200</u>

(1) The weighted-average interest rate on short-term debt was 2.1% as of December 31, 2016.

2011 Credit Facility

On December 20, 2011, we entered into a credit agreement (the "2011 Credit Facility") with a group of lenders, which provided \$600 million of borrowing including:

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

On June 26, 2015, the entire outstanding principal on our Term Loan in the amount of \$290 million was repaid with borrowings from our 2015 Credit Facility (described below) and the 2011 Credit Facility was subsequently terminated. During the years ended December 31, 2015 and 2014, we recorded total interest and commitment fees on our 2011 Credit Facility of \$3 million and \$6 million, respectively, to interest expense on our consolidated statements of operations. There was no resulting loss on early extinguishment of this debt.

2015 Credit Facility

On June 26, 2015, we entered into a five year credit agreement (the "2015 Credit Facility") with a group of lenders and immediately borrowed \$290 million. The 2015 Credit Facility, among other things, provides for (i) a \$1 billion unsecured revolving credit facility, (ii) an interest rate on borrowings and commitment fees based on the Company's and its subsidiaries' consolidated leverage ratio and (iii) uncommitted incremental revolving loan and term loan facilities, subject to compliance with a leverage covenant and other conditions. Any overdue amounts under or in respect of the revolving credit facility not paid when due shall bear interest at (i) in the case of principal, the applicable interest rate plus 2.00% per annum, (ii) in the case of interest denominated in Sterling or Euro, the applicable rate plus 2.00% per annum and (iii) in the case of interest denominated in US dollars, 2.00% per annum plus the Alternate Base Rate plus the interest rate spread applicable to ABR loans. The Company may borrow from the revolving credit facility in U.S dollars, Euros and British pound sterling with a term of five years expiring June 26, 2020. We also incurred lender fees and debt financing costs totaling \$3 million in connection with entering into the 2015 Credit Facility, which were capitalized as deferred financing costs and recorded to other long-term assets on the consolidated balance sheet. These costs will continue to be amortized over the term of the 2015 Credit Facility using the effective interest rate method and recorded to interest expense on our consolidated statements of operations.

There is no specific repayment date prior to the five-year maturity date for borrowings under this revolving credit facility. During the year ended December 31, 2016, the Company borrowed an additional \$101 million and repaid \$210 million of our outstanding borrowings on the 2015 Credit Facility. Based on the Company's current leverage ratio, our borrowings bear interest at LIBOR plus 125 basis points, or the Eurocurrency Spread. The

Company is currently borrowing under a one-month interest period of 2.0% per annum, using a one-month interest period Eurocurrency Spread, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period. We are also required to pay a quarterly commitment fee, on the daily unused portion of the revolving credit facility for each fiscal quarter and fees in connection with the issuance of letters of credit. Unused revolver capacity is currently subject to a commitment fee of 20.0 basis points, given the Company's current leverage ratio. The 2015 Credit Facility includes \$15 million of borrowing capacity available for letters of credit and \$40 million for borrowings on same-day notice. As of December 31, 2016, we had issued \$3 million of outstanding letters of credit under the 2015 Credit Facility.

During the years ended December 31, 2016 and 2015, we recorded total interest and commitment fees on our 2015 Credit Facility of \$4 million and \$2 million, respectively, to interest expense on our consolidated statements of operations. All unpaid interest and commitment fee amounts as of December 31, 2016 and 2015, respectively, were not material.

We may voluntarily repay any outstanding borrowing under the 2015 Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to Eurocurrency loans. Certain wholly-owned domestic subsidiaries of the Company have agreed to guarantee the Company's obligations under the 2015 Credit Facility. The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under 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 December 31, 2016, we are in compliance with all of our debt covenants.

2016 Credit Facility

On September 7, 2016, we entered into an uncommitted facility agreement with Bank of America Merrill Lynch International Limited (the "Lender"), 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 absolute discretion and can be canceled at any time. Repayment terms for borrowings under the 2016 Credit Facility are generally one to six month periods 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 connection with the 2016 Credit Facility, any lender fees and debt financing costs paid were not material. 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.

We borrowed \$73 million from this uncommitted credit facility in September 2016. These funds were used for general working capital needs of the Company, primarily for partial repayment of our long term debt, and the liability is recorded in short-term liabilities on our consolidated balance sheet as of December 31, 2016. The Company is currently borrowing under a one-month interest period of 1.9% per annum, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period. During the year ended December 31, 2016, total interest recorded with respect to our 2016 Credit Facility to interest expense on our consolidated statement 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”). As of December 31, 2016 and December 31, 2015, we had short-term borrowings outstanding of \$7 million and \$1 million, respectively.

We are parties to a \$30 million, one-year revolving credit facility with Bank of America (the “Chinese Credit Facility—BOA”) that is currently subject to review on a periodic basis with no specific expiration period. Our Chinese Credit Facility—BOA currently bears interest at a 100% of the People’s Bank of China’s base rate which was 4.35% as of December 31, 2016. As of December 31, 2016, there are 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”) which was reduced from RMB 125,000,000 (approximately \$18 million) during the year ended December 31, 2016. Our Chinese Credit Facility—JPM currently bears interest at a rate based on 100% of the People’s Bank of China’s base rate, which was 4.35% as of December 31, 2016. As of December 31, 2016, we had \$7 million of outstanding borrowings from the Chinese Credit Facility – JPM.

NOTE 10: INCOME TAXES

The following table presents a summary of our domestic and foreign income before income taxes:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Domestic	\$ 64	\$ 67	\$ 146
Foreign	87	172	176
Total	<u>\$ 151</u>	<u>\$ 239</u>	<u>\$ 322</u>

The following table presents a summary of the components of our provision for income taxes:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Current income tax expense:			
Federal	\$ 38	\$ 48	\$ 93
State	2	8	14
Foreign	11	22	6
Current income tax expense	<u>51</u>	<u>78</u>	<u>113</u>
Deferred income tax (benefit) expense:			
Federal	(12)	(29)	(12)
State	(3)	(2)	(1)
Foreign	(5)	(6)	(4)
Deferred income tax (benefit) expense:	<u>(20)</u>	<u>(37)</u>	<u>(17)</u>
Provision for income taxes	<u>\$ 31</u>	<u>\$ 41</u>	<u>\$ 96</u>

The Company reduced its current income tax payable by \$21 million, \$63 million and \$32 million for the years ended December 31, 2016, 2015 and 2014, respectively, for tax deductions attributable to stock-based compensation.

The significant components of our deferred tax assets and deferred tax liabilities as of December 31, 2016 and 2015 are as follows:

	December 31,	
	2016	2015
	(in millions)	
Deferred tax assets:		
Stock-based compensation	\$ 52	\$ 40
Net operating loss carryforwards	46	31
Provision for accrued expenses	12	12
Deferred rent	5	5
Lease financing obligation	33	33
Foreign advertising spend	10	8
Deferred expense related to cost-sharing arrangement	30	20
Charitable contribution carryforward	20	24
Other	7	4
Total deferred tax assets	\$ 215	\$ 177
Less: valuation allowance	(27)	(17)
Net deferred tax assets	\$ 188	\$ 160
Deferred tax liabilities:		
Intangible assets	\$ (83)	\$ (81)
Property and equipment	(28)	(27)
Prepaid expenses	(6)	(4)
Building – corporate headquarters	(31)	(31)
Deferred income related to cost-sharing arrangement	(10)	(7)
Total deferred tax liabilities	\$ (158)	\$ (150)
Net deferred tax asset (liability)	\$ 30	\$ 10

At December 31, 2016, we had federal, state and foreign net operating loss carryforwards (“NOLs”) of approximately \$23 million, \$47 million and \$124 million. If not utilized, the federal and state NOLs will expire at various times between 2020 and 2036 and the foreign NOLs will expire at various times between 2017 and 2030.

The valuation allowance on deferred tax assets of \$27 million at December 31, 2016, includes \$17 million related to foreign net operating loss carryforwards and \$10 million relating to foreign advertising spend carryforward. This amount represented an overall increase of \$10 million over the amount recorded as of December 31, 2015. The increase is primarily related to additional foreign net operating losses. Except for such foreign deferred tax assets, we expect to realize all of our deferred tax assets based on a strong history of earnings in the US and other jurisdictions, as well as future reversals of taxable temporary differences.

We have not provided for deferred U.S. income taxes on undistributed earnings of our foreign subsidiaries that we have or intend to reinvest permanently outside the United States; the total amount of such earnings as of December 31, 2016 was \$828 million. Should we distribute or be treated under certain U.S. tax rules as having distributed earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. Due to complexities in tax laws and various assumptions that would have to be made, it is not practicable at this time to estimate the amount of unrecognized deferred U.S. taxes on these earnings.

A reconciliation of the provision for income taxes to the amounts computed by applying the statutory federal income tax rate to income before income taxes is as follows:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Income tax expense at the federal statutory rate of 35%	\$ 53	\$ 84	\$ 113
Foreign rate differential	(35)	(53)	(49)
State income taxes, net of effect of federal tax benefit	4	4	13
Unrecognized tax benefits and related interest	11	12	14
Change in cost-sharing treatment of stock-based compensation	(6)	(13)	—
Non-deductible transaction costs	—	1	1
Research tax credit	(10)	(3)	(2)
Stock-based compensation	2	2	2
Change in valuation allowance	9	5	5
Other, net	3	2	(1)
Provision for income taxes	<u>\$ 31</u>	<u>\$ 41</u>	<u>\$ 96</u>

During 2011, the Singapore Economic Development Board accepted our application to receive a tax incentive under the International Headquarters Award. This incentive provides for a reduced tax rate on qualifying income of 5% as compared to Singapore's statutory tax rate of 17% and is conditional upon our meeting certain employment and investment thresholds. This agreement has been extended until June 30, 2021 as we have met certain employment and investment thresholds. This benefit resulted in a decrease to our 2016 provision for income tax expense of \$2 million, adding an incremental \$0.01 to our Diluted EPS for the year ended December 31, 2016.

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 have commenced an employment tax audit with the IRS for the 2013 and 2014 tax years. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. These examinations may lead to proposed or ordinary course adjustments to our taxes. We are no longer subject to tax examinations by tax authorities for years prior to 2008. As of December 31, 2016, no material assessments have resulted, except as noted below regarding our 2009 and 2010 IRS audit with Expedia.

In January 2017, as part of the Company's IRS audit of Expedia, 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 of \$10 million to \$14 million after consideration of competent authority relief, exclusive of interest and penalties. We disagree with the proposed adjustments and we intend to defend our position through applicable administrative and, if necessary, judicial remedies. 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. 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 would 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 a tax benefit of \$6 million and \$13 million in its consolidated statement of operations for the years ended December 31, 2016 and 2015, respectively. The Company will continue to monitor this matter and related potential impacts to its consolidated financial statements.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (excluding interest and penalties) is as follows:

	December 31,		
	2016	2015	2014
	(in millions)		
Balance, beginning of year	\$ 89	\$ 67	\$ 36
Increases to tax positions related to the current year	16	15	13
Increases to tax positions related to the prior year	1	7	18
Reductions due to lapsed statute of limitations	(1)	—	—
Decreases to tax positions related to the prior year	—	—	—
Settlements during current year	—	—	—
Balance, end of year	<u>\$ 105</u>	<u>\$ 89</u>	<u>\$ 67</u>

As of December 31, 2016, we had \$105 million of unrecognized tax benefits, net of interest, which is classified as long-term and included in other long-term liabilities on our consolidated balance sheet. The amount of unrecognized tax benefits, if recognized, would reduce income tax expense by \$63 million, due to correlative adjustments in other tax jurisdictions. We recognize interest and penalties related to unrecognized tax benefits in income tax expense on our consolidated statement of operations. As of December 31, 2016 and 2015, total gross interest accrued was \$9 million and \$6 million, respectively. We do not anticipate any material changes in the next fiscal year.

NOTE 11: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31,	December 31,
	2016	2015
	(in millions)	
Accrued employee salary, bonus, and related benefits	\$ 53	\$ 47
Accrued marketing costs	37	43
Other	37	33
Total	<u>\$ 127</u>	<u>\$ 123</u>

NOTE 12: OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following for the periods presented:

	December 31,	December 31,
	2016	2015
	(in millions)	
Unrecognized tax benefits (1)	\$ 108	\$ 87
Financing obligation, net of current portion (2)	84	84
Other (3)	18	18
Total	<u>\$ 210</u>	<u>\$ 189</u>

- (1) See “Note 10—*Income Taxes*” for additional information on our unrecognized tax benefits. Amount includes accrued interest related to this liability.
- (2) Refer to “Note 13 – *Commitments and Contingencies*,” for additional information on our corporate headquarters lease.
- (3) Amounts primarily consist of long term deferred rent balances related to operating leases for office space.

NOTE 13: COMMITMENTS AND CONTINGENCIES

We have material commitments and obligations that include office space leases, and expected interest and commitment fees on long-term debt, which are not accrued on the consolidated balance sheet at December 31, 2016 but we expect to require future cash outflows.

The following table summarizes our material commitments and obligations as of December 31, 2016:

	Total	By Period			More than 5 years
		Less than 1 year	1 to 3 years (in millions)	3 to 5 years	
Property leases, net of sublease income (1)	\$ 248	\$ 25	\$ 51	\$ 52	\$ 120
Expected interest payments on 2015 Credit Facility (2)	7	2	4	1	—
Expected commitment fee payments on 2015 Credit Facility (3)	7	2	4	1	—
Total (4)	<u>\$ 262</u>	<u>\$ 29</u>	<u>\$ 59</u>	<u>\$ 54</u>	<u>\$ 120</u>

- (1) Estimated future minimum rental payments under operating leases with non-cancelable lease terms, including our corporate headquarters lease in Needham, MA.
- (2) The amounts included as expected interest payments on the 2015 Credit Facility in this table are based on the effective interest rate and outstanding borrowings as of December 31, 2016, but, could change significantly in the future. Amounts assume that our existing debt is repaid at the end of the credit agreement and do not assume additional borrowings or refinancing of existing debt. Refer to “Note 9— Debt” for additional information on our 2015 Credit Facility.
- (3) The amounts included as expected commitment fee payments in this table are based on the unused portion of credit facility, issued letters of credit, and current effective commitment fee rate as of December 31, 2016; however, these variables could change significantly in the future.
- (4) Excluded from the table was \$108 million of unrecognized tax benefits, including accrued interest, that we have recorded in other long-term liabilities on our consolidated balance sheet for which we cannot make a reasonably reliable estimate of the amount and period of payment. We do not anticipate any material changes in the next year.

Office Lease Commitments

We have contractual obligations in the form of operating leases for office space for which we record the related expense on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options. Rent expense related to such leases is recorded on a straight-line basis. Operating lease obligations expire at various dates with the latest maturity in December 2030. For the years ended December 31, 2016, 2015 and 2014, we recorded rental expense of \$18 million, \$19 million and \$17 million, respectively.

Corporate Headquarters Lease

In June 2013, TripAdvisor LLC (“TA LLC”), our indirect, wholly owned subsidiary, entered into a lease, for a new corporate headquarters (the “Lease”). Pursuant to the Lease, the landlord built an approximately 280,000 square foot rental building in Needham, Massachusetts (the “Premises”), and leased the Premises to TA LLC as our new corporate headquarters for an initial term of 15 years and 7 months or through December 2030. TA LLC also has an option to extend the term of the Lease for two consecutive terms of five years each.

Because we were involved in the construction project and were responsible for paying a portion of the costs of normal finish work and structural elements of the Premises, the Company was deemed for accounting purposes to be the owner of the Premises during the construction period under build to suit lease accounting guidance under GAAP. Therefore, the Company recorded project construction costs during the construction period incurred by the landlord as a construction-in-progress asset and a related construction financing obligation on our consolidated balance sheets. The amounts that the Company has paid or incurred for normal tenant improvements and structural improvements had also been recorded to the construction-in-progress asset.

Upon completion of construction at end of the second quarter of 2015, we evaluated the construction-in-progress asset and construction financing obligation for de-recognition under the criteria for “sale-leaseback” treatment under GAAP. We concluded that we have forms of continued economic involvement in the facility, and therefore did not meet the provisions for sale-leaseback accounting. This determination was based on the Company’s continuing involvement with the property in the form of non-recourse financing to the lessor. Therefore, the Lease is accounted for as a financing obligation. Accordingly, we began depreciating the building asset over its estimated useful life and incurring interest expense related to the financing obligation imputed using the effective interest rate method. We bifurcate our lease payments pursuant to the Premises into: (i) a portion that is allocated to the building (a reduction to the financing obligation) and; (ii) a portion that is allocated to the land on which the building was constructed. The portion of the lease obligations allocated to the land is treated as an operating lease that commenced in 2013. The financing obligation is considered a long-term finance lease obligation and is recorded to long-term liabilities on our consolidated balance sheet. At the end of the lease term, the carrying value of the building asset and the remaining financing obligation are expected to be equal, at which time we may either surrender the leased asset as settlement of the remaining financing obligation or extend the initial term of the lease for the continued use of the asset. In the years ended December 31 2016, 2015, and 2014, the Company recorded \$7 million, \$4 million, and \$0 million of interest expense, respectively, \$3 million, \$2 million, and \$0 million of depreciation expense, respectively, and \$2 million, \$1 million, \$1 million, of rent expense in general and administrative expense on our consolidated statements of operations, respectively, related to the Premises.

Additional United States and International Locations

We also lease an aggregate of approximately 465,000 square feet at approximately 40 other locations across North America, Europe and Asia Pacific, in cities such as, New York, Boston, London, Sydney, Barcelona, Paris, and Beijing, primarily for our sales offices, subsidiary headquarters, and international management teams, pursuant to leases with various expiration dates, with the latest expiring in June 2027.

As of December 31, 2016, future minimum commitments under our corporate headquarters lease and other non-cancelable operating leases for office space with terms of more than one year and contractual sublease income were as follows:

Year	Corporate Headquarters Lease (1)	Other Operating Leases	Sublease Income	Total Lease Commitments (Net of Sublease Income)
(in millions)				
2017	\$ 9	\$ 17	\$ (1)	\$ 25
2018	9	17	(1)	25
2019	9	18	(1)	26
2020	9	17	—	26
2021	10	16	—	26
Thereafter	87	33	—	120
Total minimum lease payments	<u>\$ 133</u>	<u>\$ 118</u>	<u>\$ (3)</u>	<u>\$ 248</u>

- (1) Amount includes an \$84 million financing obligation, which we have recorded in other long-term liabilities on our consolidated balance sheet at December 31, 2016, related to our corporate headquarters lease.

Letters of Credit

As of December 31, 2016, we have issued unused letters of credit totaling \$3 million, related to our property leases, which includes \$1 million delivered to the landlord of our corporate headquarters as security deposit, which amount is subject to increase under certain circumstances.

Legal Proceedings

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

Income Taxes

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

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flows, in foreign jurisdictions which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows. See “Note 10— *Income Taxes*” above for further information on potential contingencies surrounding income taxes.

NOTE 14: EMPLOYEE BENEFIT PLANS

Retirement Savings Plan

The TripAdvisor Retirement Savings Plan (the “401(k) Plan”), qualifies under Section 401(k) of the Internal Revenue Code. The 401(k) Plan allows participating employees, most of our U.S. employees, to make contributions of a specified percentage of their eligible compensation. Participating employees may contribute up to 50% of their eligible salary on a pre-tax basis, but not more than statutory limits. Employee-participants age 50 and over may also contribute an additional amount of their salary on a pre-tax tax basis up to the IRS Catch-Up Provision Limit, or catch-up contributions. Employees may also contribute into the 401(k) Plan on an after-tax basis up to an annual maximum of 10%. The 401(k) Plan has an automatic enrollment feature at 6% pre-tax. We match 50% of the first 6% of employee contributions to the plan for a maximum employer contribution of 3% of a participant’s eligible earnings. The “catch up contributions”, are not eligible for employer matching contributions. The matching contributions portion of an employee’s account, vests after two years of service. The Plan also permits certain after-tax Roth 401(k) contributions. Additionally, at the end of the 401(k) Plan year, we make a discretionary matching contribution to eligible participants. This additional discretionary matching employer contribution referred to as “true up” is limited to match only contributions up to 3% of eligible compensation.

We also have various defined contribution plans for our international employees. Our contribution to the 401(k) Plan and our international defined contribution plans was \$9 million, \$7 million, and \$5 million for the years ended December 31, 2016, 2015 and 2014, respectively, and recorded to our consolidated statements of operations, respectively, for those years.

TripAdvisor, Inc. Deferred Compensation Plan for Non-Employee Directors

The Company also has a Deferred Compensation Plan for Non-Employee Directors (the “Plan”). Under the Plan, eligible directors who defer their directors’ fees may elect to have such deferred fees (i) applied to the purchase of share units, representing the number of shares of our common stock that could have been purchased on the date such fees would otherwise be payable, or (ii) credited to a cash fund. The cash fund will be credited with interest at an annual rate equal to the weighted average prime or base lending rate of a financial institution selected in accordance with the terms of the Plan and applicable law. Upon termination of service as a director of TripAdvisor, a director will receive (i) with respect to share units, such number of shares of our common stock as the share units represent, and (ii) with respect to the cash fund, a cash payment. Payments upon termination will be made in either one lump sum or up to five annual installments, as elected by the eligible director at the time of the deferral election.

Under the 2011 Incentive Plan, 100,000 shares of TripAdvisor common stock are available for issuance to non-employee directors. From the inception of the Plan through December 31, 2016, a total of 1,662 shares have been reserved for such purpose.

NOTE 15: STOCKHOLDERS’ EQUITY

Preferred Stock

In addition to common stock, we are authorized to issue up to 100 million preferred shares, with \$ 0.001 par value per share, with terms determined by our Board of Directors, without further action by our stockholders. At December 31, 2016, no preferred shares had been issued.

Common Stock and Class B Common Stock

Our authorized common stock consists of 1.6 billion shares of common stock with par value of \$0.001 per share, and 400 million shares of Class B common stock with par value of \$0.001 per share. Both classes of common stock qualify for and share equally in dividends, if declared by our Board of Directors. Common stock is entitled to one vote per share and Class B common stock is entitled to 10 votes per share on most matters. Holders of TripAdvisor common stock, acting as a single class, are entitled to elect a number of directors equal to 25% percent of the total number of directors, rounded up to the next whole number, which was two directors as of December 31, 2016. Class B common stockholders may, at any time, convert their shares into common stock, on a one for one share basis. Upon conversion, the Class B common stock is retired and is not available for reissue. In the event of liquidation, dissolution, distribution of assets or winding-up of TripAdvisor the holders of both classes of common stock have equal rights to receive all the assets of TripAdvisor after the rights of the holders of the preferred stock have been satisfied. There were 134,706,467 and 131,310,980 shares of common stock issued and outstanding, respectively, at December 31, 2016 and 12,799,999 shares of Class B common stock issued and outstanding at December 31, 2016.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss is primarily comprised of accumulated foreign currency translation adjustments, as follows for the periods presented:

	December 31, 2016	December 31, 2015
	(in millions)	
Cumulative foreign currency translation adjustments (1)	\$ (77)	\$ (63)
Total accumulated other comprehensive loss (2)	<u>\$ (77)</u>	<u>\$ (63)</u>

- (1) We consider our foreign subsidiary earnings indefinitely reinvested; therefore; deferred taxes are not provided on foreign currency translation adjustments.

- (2) Our accumulated net unrealized gain (loss) on available for sale securities was not material as of December 31, 2016 and December 31, 2015.

Treasury Stock

On February 15, 2013, our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a share repurchase program. During the year ended December 31, 2016, we repurchased 2,002,356 shares of outstanding common stock under the share repurchase program at an average cost of \$52.35 per share. During the years ended December 31, 2015 and 2014, we did not repurchase any shares of outstanding common stock under the share repurchase program.

As of December 31, 2016, we have repurchased a total of 4,123,065 shares of outstanding common stock under the share repurchase program at an average cost of \$60.63 per share and have completed our share repurchase program authorized by our Board of Directors.

In December 2015, we issued 801,042 treasury shares to the Foundation in settlement of all future pledge obligations. Refer to “Note 17 – *Segment and Geographic Information*,” for a discussion of this transaction.

We have 3,395,487 treasury shares remaining as of December 31, 2016 with an aggregate cost of \$197 million.

Dividends

During the years ended December 31, 2016, 2015, and 2014, our Board of Directors did not declare any dividends on our outstanding common stock and do not expect to pay any dividends for the foreseeable future.

NOTE 16: RELATED PARTY TRANSACTIONS

Relationship between Expedia and TripAdvisor

Upon consummation of the Spin-Off, Expedia was considered a related party under GAAP based on a number of factors, including, among others, common ownership of our shares and those of Expedia. However, we no longer consider Expedia a related party. For purposes of governing certain of the ongoing relationships between us and Expedia at and after the Spin-Off, and to provide for an orderly transition, we and Expedia entered into various agreements at the time of the Spin-Off, which TripAdvisor has satisfied its obligations. However, TripAdvisor continues to be subject to certain post-spin obligations under the Tax Sharing Agreement.

Under the Tax Sharing Agreement between us and Expedia, we are generally required to indemnify Expedia for any taxes resulting from the Spin-Off (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts resulted from (i) any act or failure to act by us described in the covenants in the tax sharing agreement, (ii) any acquisition of our equity securities or assets or those of a member of our group, or (iii) any failure of the representations with respect to us or any member of our group to be true or any breach by us or any member of our group of any covenant, in each case, which is contained in the separation documents or in the documents relating to the IRS private letter ruling and/or the opinion of counsel. The full text of the Tax Sharing Agreement is incorporated by reference in this Annual Report on Form 10-K as Exhibit 10.2. Refer to “Note 10— *Income Taxes*” above for information regarding the status of completed and ongoing IRS audits of our consolidated income tax returns with Expedia to date.

Relationship between Liberty TripAdvisor Holdings, Inc. and TripAdvisor

We consider Liberty TripAdvisor Holdings, Inc. (“LTRIP”) a related party. As of December 31, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constituted 13.8% of the outstanding shares of Common Stock and 100% of the outstanding shares of Class B Common Stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.5% of the outstanding common stock. Because each share of Class B

common stock is generally 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 56.4% of our voting power. Refer to “Note 1—*Organization and Business Description*” above, which describes the evolution of our relationship with LTRIP.

We had no related party transactions with LTRIP during the years ended December 31, 2016, 2015 or 2014.

NOTE 17: SEGMENT AND GEOGRAPHIC INFORMATION

Segment Information

Our reporting structure includes two reportable segments: Hotel and Non-Hotel. In the first quarter of 2016, we renamed our “Other” reportable segment “Non-Hotel.” This change had no effect on our consolidated financial statements or to previously reported segment information, as there was no change in the composition of our operating or reportable segments.

Hotel

Our Hotel segment includes revenue generated from the following sources:

- ***Click-Based advertising 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 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.
- ***Display-Based and subscription-based advertising 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 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 smartertravel.com, independenttraveler.com, and bookingbuddy.com, which includes click-based advertising revenue, display-based advertising revenue, hotel room reservations sold through these 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. 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. Through our restaurant reservations business The Fork we provide information and services for users to research and book restaurants. The Fork is an online restaurant booking platform operating on a number of sites (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, www.dimmi.com.au, and www.en.couverts.nl), with a network of restaurant partners primarily across Europe and Australia. The Fork generates revenue by charging our restaurant partners a fee for each restaurant guest, or seated diner, that we facilitate through our online reservation systems. The Fork also provides flexible online booking and a premium data and analytics tool, for which the restaurant owner pays a subscription fee. The Fork'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 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, an annual subscription-based fee structure. These properties are listed on a number of platforms, 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. Our chief operating decision maker is also our Hotel segment manager. Each Non-Hotel operating segment has a segment manager who is directly accountable to and maintains regular contact with our chief operating decision maker to discuss operating activities, financial results, forecasts, and plans for the segment.

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

The following tables present our segment information for the years ended December 31, 2016, 2015 and 2014, and includes 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 evaluate operating segments using this information. We also do not regularly provide such information by segment to our chief operating decision maker. Our consolidated general and administrative expenses, excluding stock-based compensation costs, are shared by all operating segments. Each operating segment receives an allocated charge based on the segment's percentage of the Company's total personnel costs.

	Year ended December 31, 2016			
	Hotel	Non-Hotel	Corporate and unallocated	Total
	(in millions)			
Revenue	\$ 1,190	\$ 290	\$ —	\$ 1,480
Adjusted EBITDA (1)	380	(28)	—	352
Depreciation			(69)	(69)
Amortization of intangible assets			(32)	(32)
Stock-based compensation			(85)	(85)
Operating income				166
Other expense, net				(15)
Income before income taxes				151
Provision for income taxes				(31)
Net income				<u>\$ 120</u>

	Year ended December 31, 2015			
	Hotel	Non-Hotel	Corporate and unallocated	Total
	(in millions)			
Revenue	\$ 1,263	\$ 229	\$ —	\$ 1,492
Adjusted EBITDA (1)	472	(6)	—	466
Depreciation			(57)	(57)
Amortization of intangible assets			(36)	(36)
Stock-based compensation			(72)	(72)
Non-cash charitable contribution (2)			(67)	(67)
Other non-recurring expenses			(2)	(2)
Operating income				232
Other income, net				7
Income before income taxes				239
Provision for income taxes				(41)
Net income				<u>\$ 198</u>

	Year ended December 31, 2014			
	Hotel	Non-Hotel	Corporate and unallocated	Total
	(in millions)			
Revenue	\$ 1,135	\$ 111	\$ —	\$ 1,246
Adjusted EBITDA (1)(3)	472	(4)	—	468
Depreciation			(47)	(47)
Amortization of intangible assets			(18)	(18)
Stock-based compensation			(63)	(63)
Operating income				340
Other expense, net				(18)
Income before income taxes				322
Provision for income taxes				(96)
Net income				<u>\$ 226</u>

- (1) Includes allocated general and administrative expenses in our Hotel segment of \$80 million, \$85 million and \$87 million; and in our Non-Hotel segment of \$38 million, \$28 million and \$18 million for the years ended December 31, 2016, 2015 and 2014, respectively.
- (2) During the fourth quarter of 2015, we incurred an expense in the amount of \$67 million to reflect a non-cash contribution to The TripAdvisor Charitable Foundation (the "Foundation"), which was recorded to general and administrative expense in our consolidated statement of operations. TripAdvisor had historically funded 2% of its annual operating income before amortization and stock-based compensation. TripAdvisor's pledge agreement provided for an immediate satisfaction of all future annual contributions, by paying an amount equal to eight multiplied by TripAdvisor's prior year contribution to the Foundation. TripAdvisor exercised this right under its pledge agreement in December 2015. We settled this obligation in treasury shares based on the fair value of our common stock on the date the treasury shares were issued to the Foundation and therefore given the use of stock to settle the obligation, the amount has been excluded from Adjusted EBITDA. TripAdvisor does not expect to make any future contributions to the Foundation.
- (3) Hotel segment Adjusted EBITDA includes charitable contributions to the Foundation which were funded in cash of \$8 million for the year ended December 31, 2014.

Revenue and Geographic Information

In the first quarter of 2016 we began providing additional disclosure on our revenue sources within our Hotel segment, which are TripAdvisor-branded click-based and transaction revenue, TripAdvisor-branded display-based advertising and subscription revenue; and other hotel revenue, which along with our Non-Hotel revenue source comprise our products. In conjunction with providing these additional revenue disclosures, we will no longer provide our historically reported revenue disclosure of click-based advertising, display-based advertising, and subscription, transaction and other revenues. This change had no effect on our consolidated financial statements in any period or with the composition of our operating or reportable segments.

The following table presents revenue by source for the periods presented:

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
TripAdvisor-branded click-based and transaction	\$ 750	\$ 837	\$ 764
TripAdvisor-branded display-based advertising and subscription	282	272	233
Other hotel revenue	158	154	138
Non-hotel revenue	290	229	111
Total revenue	<u>\$ 1,480</u>	<u>\$ 1,492</u>	<u>\$ 1,246</u>

The following table presents revenue by geographic area, the United States, the United Kingdom and all other countries, based on the geographic location of our websites for the periods presented:

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Revenue			
United States	\$ 799	\$ 739	\$ 593
United Kingdom	210	215	191
All other countries	471	538	462
Total revenue	<u>\$ 1,480</u>	<u>\$ 1,492</u>	<u>\$ 1,246</u>

The following table presents property and equipment, net for the United States and all other countries based on the geographic location of the assets for the periods presented:

	December 31,	
	2016	2015
	(in millions)	
Property and equipment, net		
United States	\$ 222	\$ 217
All other countries	38	30
Total	<u>\$ 260</u>	<u>\$ 247</u>

NOTE 18: INTEREST INCOME AND OTHER, NET

The following table presents the detail of interest income and other, net, for the periods presented:

	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Net loss, realized and unrealized, on foreign currency exchange and foreign currency derivative contracts and other, net	\$ (4)	\$ (4)	\$ (10)
Interest income	1	1	1
Gain on sale of business (1)	—	20	—
Total	<u>\$ (3)</u>	<u>\$ 17</u>	<u>\$ (9)</u>

(1) See “Note 3 – *Acquisitions and Dispositions*” for information regarding our gain on sale of business in 2015.

NOTE 19: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents selected unaudited financial information for the eight quarters in the period ended December 31, 2016. The results for any quarter are not necessarily indicative of future quarterly results and, accordingly, period to period comparisons should not be relied upon as an indication of future performance.

	Three Months Ended			
	March 31 (3)	June 30 (3)	September 30	December 31
	(in millions, except per share data)			
Year ended December 31, 2016				
Revenue	\$ 352	\$ 391	\$ 421	\$ 316
Operating income	42	47	66	10
Net income	29	34	55	1
Basic earnings per share (1)	\$ 0.20	\$ 0.23	\$ 0.38	\$ 0.01
Diluted earnings per share (1)	\$ 0.20	\$ 0.23	\$ 0.37	\$ 0.01
Year ended December 31, 2015				
Revenue	\$ 363	\$ 405	\$ 415	\$ 309
Operating income (loss) (2)	90	79	88	(25)
Net income	63	58	74	3
Basic earnings per share (1)	\$ 0.44	\$ 0.40	\$ 0.51	\$ 0.02
Diluted earnings per share (1)	\$ 0.43	\$ 0.40	\$ 0.51	\$ 0.02

- (1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.
- (2) During the fourth quarter of 2015, we recognized an incremental \$59 million charge over the third quarter of 2015, related to a non-cash charitable contribution recorded to general and administrative expense on our consolidated statement of operations. Refer to “Note 17 – *Segments and Geographic Information*” for a discussion of this charitable contribution.
- (3) In the third quarter of 2016, the Company early adopted ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Refer to “Note 2 – *Significant Accounting Policies*” for the impact of the adoption of this guidance on the first and second quarters of 2016.

NOTE 20: SUBSEQUENT EVENTS

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. The repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time. The Executive Committee of our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders.

In January 2017, as part of the Company’s IRS audit with Expedia, we received Notices of Proposed Adjustment from the IRS for the 2009 and 2010 tax years. Refer to “Note 10 – *Income Taxes*” for a discussion of this matter.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 31, 2016, our management, with the participation of our Chief Executive Officer and President and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our Chief Executive Officer and President and our Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's, or the SEC's, rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our Chief Executive Officer and President and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and President and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's management evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. Pursuant to Exchange Act Rule 13a-15(d) or 15d-15(d), management has concluded that, as of December 31, 2016, our internal control over financial reporting was effective. Management has reviewed its assessment with the Audit Committee. KPMG LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report which is included below.

Limitations on Effectiveness of Controls and Procedures

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
TripAdvisor, Inc.:

We have audited TripAdvisor, Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). TripAdvisor, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TripAdvisor, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TripAdvisor, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 17, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Boston, Massachusetts
February 17, 2017

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 11. Executive Compensation

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

Item 14. Principal Accounting Fees and Services

The information required under this item is incorporated herein by reference to our 2017 Proxy Statement, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended December 31, 2016.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following is filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements*: The consolidated financial statements and report of independent registered public accounting firms required by this item are included in Part II, Item 8.

All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the consolidated financial statements or in the notes thereto.

(b) Exhibits: The attached list of exhibits in the “Exhibit Index” immediately preceding the exhibits to this annual report is incorporated herein by reference in response to this item.

Signatures

Pursuant to the requirements of the Section 13 or 15(d) of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRIPADVISOR, INC.

February 17, 2017

By: /s/ STEPHEN KAUFER

Stephen Kaufer
Chief Executive Officer and
President

POWER OF ATTORNEY

We, the undersigned officers and directors of TripAdvisor, Inc., hereby severally constitute and appoint Stephen Kaufer and Ernst Teunissen, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us in our names in the capacities indicated below, all amendments to this report, and generally to do all things in our names and on our behalf in such capacities to enable TripAdvisor, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 17, 2017.

<u>Signature</u>	<u>Title</u>
<u>/s/ STEPHEN KAUFER</u> Stephen Kaufer	Chief Executive Officer, President and Director (Principal Executive Officer)
<u>/s/ ERNST TEUNISSEN</u> Ernst Teunissen	Chief Financial Officer (Principal Financial Officer)
<u>/s/ NOEL WATSON</u> Noel Watson	Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ GREGORY B. MAFFEI</u> Gregory B. Maffei	Chairman of the Board
<u>/s/ DIPCHAND V. NISHAR</u> Dipchand V. Nishar	Director
<u>/s/ JEREMY PHILIPS</u> Jeremy Philips	Director
<u>/s/ SPENCER M. RASCOFF</u> Spencer M. Rascoff	Director
<u>/s/ ALBERT E. ROSENTHALER</u> Albert E. Rosenthaler	Director
<u>/s/ SUKINDER SINGH CASSIDY</u> Sukinder Singh Cassidy	Director
<u>/s/ ROBERT S. WIESENTHAL</u> Robert S. Wiesenthal	Director

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Filed Herewith	Form	Incorporated by Reference		Filing Date
				SEC File No.	Exhibit No.	
2.1	Separation Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011		8-K	001-35362	2.1	12/27/11
3.1	Restated Certificate of Incorporation of TripAdvisor, Inc.		8-K	001-35362	3.1	12/27/11
3.2	Amended and Restated Bylaws of TripAdvisor, Inc.		8-K	001-35362	3.2	12/27/11
3.3	Amended No. 1 to Amended and Restated Bylaws of TripAdvisor, Inc.		8-K	001-35362	3.1	2/12/13
4.1	Equity Warrant Agreement by and between TripAdvisor, Inc. and Mellon Investor Services LLC, as Equity Warrant Agent, dated as of December 20, 2011		8-K	001-35362	4.1	12/27/11
4.2	Specimen TripAdvisor, Inc. Common Stock Certificate		S-4/A	333-175828-01	4.6	10/24/11
10.1	Governance Agreement, by and among TripAdvisor, Inc., Liberty Interactive Corporation and Barry Diller, dated as of December 20, 2011		8-K	001-35362	10.1	12/27/11
10.2	Tax Sharing Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011		8-K	001-35362	10.2	12/27/11
10.3	Employee Matters Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011		8-K	001-35362	10.3	12/27/11
10.4	Transition Services Agreement by and between TripAdvisor, Inc. and Expedia, Inc., dated as of December 20, 2011		8-K	001-35362	10.4	12/27/11
10.5	Sublease between Newton Technology Park LLC and TripAdvisor LLC, dated as of October 31, 2007		S-4/A	333-175828-01	10.12	10/24/11
10.6	First Amendment to Sublease between Newton Technology Park LLC and TripAdvisor LLC, dated as of June 15, 2009		S-4/A	333-175828-01	10.13	10/24/11
10.7	Credit Agreement, by and among TripAdvisor, TripAdvisor Holdings, LLC, and TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent, dated as of December 20, 2011		8-K	001-35362	4.2	12/27/11
10.8	Waiver and Amendment Agreement, by and among TripAdvisor, TripAdvisor Holdings, LLC, and TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent, dated as of December 27, 2013		10-K	001-35362	10.8	2/11/14
10.9+	Amended and Restated TripAdvisor, Inc. 2011 Stock and Annual Incentive Plan		10-Q	333-190384	10.1	11/8/16
10.10+	TriAdvisor, Inc. Deferred Compensation Plan for Non-Employee Directors		S-8	333-178637	4.6	12/20/11
10.11+	Form of Option Agreement (Domestic)		10-K	001-35362	10.12	2/17/15
10.12+	Form of Option Agreement (International)		10-K	001-35362	10.13	2/17/15
10.13+	Form of Restricted Stock Unit Agreement (Domestic)		10-K	001-35362	10.14	2/17/15
10.14+	Form of Restricted Stock Unit Agreement (PRC)		10-K	001-35362	10.15	2/17/15

Exhibit No.	Exhibit Description	Filed Herewith	Form	Incorporated by Reference		Filing Date
				SEC File No.	Exhibit No.	
10.15+	Form of Restricted Stock Unit Agreement (Other International)		10-K	001-35362	10.16	2/17/15
10.16+	Form of Restricted Stock Unit Agreement (Non-Employee Directors)		10-K	001-35362	10.17	2/17/15
10.17+	Form of Restricted Stock Unit Agreement (Performance Based)		10-K	001-35362	10.18	2/17/15
10.18	Corporate Headquarters Lease with Normandy Gap-V Needham Building 3, LLC, as landlord, dated as of June 20, 2013		10-Q	001-35362	10.1	7/24/13
10.19	Guaranty dated June 20, 2013 by TripAdvisor, Inc. for the benefit of Normandy Gap-V Needham Building 3, LLC, as landlord		10-Q	001-35362	10.2	7/24/13
10.20	Form of TripAdvisor Media Group Master Advertising Insertion Order		10-K	001-35362	10.21	2/11/14
10.21+	Employment Agreement between TripAdvisor LLC and Seth Kalvert, effective as of May 19, 2016		10-Q	001-35362	10.1	5/23/16
10.22+	Employment Agreement between TripAdvisor LLC and Stephen Kaufer, effective as of February 11, 2014		10-Q	001-35362	10.3	5/6/14
10.23+	Viator, Inc. 2010 Stock Incentive Plan		S-8	333-198726	16.1	9/12/14
10.24+	Offer Letter dated February 15, 2016, between TripAdvisor Limited and Dermot Halpin	X				
10.25+	Offer Letter dated July 22, 2014 between TripAdvisor LLC and Barrie Seidenberg		10-Q	001-35362	10.3	5/6/15
10.26	Credit Agreement dated as of June 26, 2015 by and among TripAdvisor, Inc., TripAdvisor Holdings, LLC, TripAdvisor LLC, JPMorgan Chase Bank, N.A., as Administrative Agent; J.P. Morgan Europe Limited, as London Agent; Morgan Stanley Bank, N.A.; Bank of America, N.A.; BNP Paribas; SunTrust Bank; Wells Fargo Bank, National Association; Royal Bank of Canada; Barclays Bank PLC; U.S. Bank National Association; Citibank, N.A.; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Goldman Sachs Bank USA; and Deutsche Bank AG New York Branch.		8-K	001-35362	10.1	6/30/15
10.27+	Employment Agreement, dated as of October 6, 2015, between TripAdvisor, LLC and Ernst Teunissen		8-K	001-35362	10.1	10/8/15
10.28	Transition Services Agreement, dated as of November 17, 2016, between TripAdvisor, LLC and Barrie Seidenberg		8-K	001-35362	10.1	11/17/16
21.1	Subsidiaries of the Registrant	X				
23.1	Consent of KPMG, LLP, Independent Registered Public Accounting Firm	X				
24.1	Power of Attorney (included in signature page)	X				
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of the Chief Executive Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				

Exhibit No.	Exhibit Description	Filed Herewith	Form	Incorporated by Reference		Filing Date
				SEC File No.	Exhibit No.	
32.2	Certification of the Chief Financial Officer pursuant Section 906 of the Sarbanes-Oxley Act of 2002	X				
101	The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.	X				

+ *Indicates a management contract or a compensatory plan, contract or arrangement.*



Notice of 2017 Annual Meeting
and Proxy Statement



April 26, 2017

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of TripAdvisor, Inc. We will hold the Annual Meeting on Thursday, June 22, 2017, at 1:00 p.m. local time at the Residence Inn, 80 B Street, Needham, MA 02494.

At the Annual Meeting, stockholders will be asked (1) to elect the eight directors named in this Proxy Statement, (2) to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017, and (3) to consider and act upon any other business that may properly come before the meeting and any adjournments or postponements thereof. **The Board of Directors recommends a vote FOR proposals (1) and (2).**

You may vote if you were a stockholder of record on April 24, 2017. You may vote via the Internet or by telephone by following the instructions on your Notice of Internet Availability and on the website noted in the Notice of Internet Availability. In order to vote via the Internet or by telephone, you must have your stockholder identification number, which is provided in your Notice. If you have requested a proxy card by mail, you may vote by signing, voting and returning that proxy card in the envelope provided. If you attend the Annual Meeting, you may vote in person even if you have previously returned your proxy card or have voted via the Internet or by telephone.

Your vote is very important to us. Please review the instructions for each voting option described in the Notice and in this Proxy Statement. Your prompt cooperation will be greatly appreciated.

Sincerely,

A handwritten signature in black ink that reads "Stephen Kauffer". The signature is fluid and cursive, with the first name "Stephen" and last name "Kauffer" clearly legible.

STEPHEN KAUFER
President and Chief Executive Officer

TRIPADVISOR, INC.
400 1st Avenue
Needham, Massachusetts 02494

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 22, 2017

The Annual Meeting of Stockholders of TripAdvisor, Inc., a Delaware corporation, will be held on Thursday, June 22, 2017, at 1:00 p.m. local time at the Residence Inn, 80 B Street, Needham, MA 02494. At the Annual Meeting, stockholders will be asked to consider the following:

1. To elect the eight directors named in this Proxy Statement, each to serve for a one-year term from the date of his or her election and until such director's successor is elected or until such director's earlier resignation or removal;
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017; and
3. To consider and act upon any other business that may properly come before the Annual Meeting and any adjournments or postponements thereof.

Only holders of record of outstanding shares of TripAdvisor capital stock at the close of business on April 24, 2017 are entitled to notice of and to vote at the Annual Meeting and at any adjournments or postponements thereof.

In accordance with the rules of the U.S. Securities and Exchange Commission, we will furnish proxy materials over the Internet. We will send to our stockholders a Notice of Internet Availability of Proxy Materials on or about April 26, 2017, and provide access to our proxy materials over the Internet to our holders of record and beneficial owners of our capital stock as of the close of business on the record date.

Only stockholders and persons holding proxies from stockholders may attend the Annual Meeting. If your shares are registered in your name, you must bring a form of identification to the Annual Meeting. If your shares are held in the name of a broker, trust, bank or other nominee, you must bring a proxy or letter from that broker, trust, bank or other nominee that confirms that you are the beneficial owner of those shares.

By Order of the Board of Directors,



SETH J. KALVERT
Senior Vice President, General Counsel
and Secretary

April 26, 2017

**Important Notice Regarding the Availability of Proxy Materials
for the Annual Meeting of Stockholders to Be Held on June 22, 2017**

**This Proxy Statement and the 2016 Annual Report are available at:
<http://ir.tripadvisor.com/annual-proxy.cfm>**

TRIPADVISOR, INC.

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS

TABLE OF CONTENTS

	<u>Page</u>
Procedural Matters	1
Proposal 1: Election of Directors	5
Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm	15
Audit Committee Report	17
Compensation Discussion and Analysis	18
Executive Compensation	30
Director Compensation	43
Security Ownership of Certain Beneficial Owners and Management	45
Certain Relationships and Related Person Transaction	48
Where You Can Find More Information and Incorporation By Reference	49

PROCEDURAL MATTERS

This Proxy Statement is being furnished to holders of common stock and Class B common stock of TripAdvisor, Inc., a Delaware corporation, in connection with the solicitation of proxies by TripAdvisor's Board of Directors for use at its 2017 Annual Meeting of Stockholders or any adjournment or postponement thereof (the "Annual Meeting"). All references to "TripAdvisor," the "Company," "we," "our" or "us" in this Proxy Statement are to TripAdvisor, Inc. and its subsidiaries. An Annual Report to Stockholders, containing financial statements for the year ended December 31, 2016, and this Proxy Statement are being made available to all stockholders entitled to vote at the Annual Meeting.

TripAdvisor's principal executive offices are currently located at 400 1st Avenue, Needham, Massachusetts 02494. This Proxy Statement is being made available to TripAdvisor stockholders on or about April 26, 2017.

Date, Time and Place of Meeting

The Annual Meeting will be held on Thursday, June 22, 2017, at 1:00 p.m. local time at the Residence Inn, 80 B Street, Needham, MA 02494.

Only stockholders and persons holding proxies from stockholders may attend the Annual Meeting. If your shares are registered in your name, you must bring a form of identification to the Annual Meeting. If your shares are held in the name of a broker, trust, bank or other nominee, otherwise known as holding in "street name," you must bring a proxy or letter from that broker, trust, bank or other nominee that confirms you are the beneficial owner of those shares. Cameras and recording devices will not be permitted at the Annual Meeting.

Record Date and Voting Rights

The Board of Directors established the close of business on April 24, 2017 as the record date for determining the holders of TripAdvisor common stock entitled to notice of and to vote at the Annual Meeting. On the record date, 128,411,141 shares of common stock and 12,799,999 shares of Class B common stock were outstanding and entitled to vote at the Annual Meeting. TripAdvisor stockholders are entitled to one vote for each share of common stock and ten votes for each share of Class B common stock held as of the record date, voting together as a single voting group, in (i) the election of six of the eight director nominees and (ii) the ratification of the appointment of KPMG LLP as TripAdvisor's independent registered public accounting firm for the year ending December 31, 2017. TripAdvisor stockholders are entitled to one vote for each share of common stock held as of the record date in the election of the two director nominees that the holders of TripAdvisor common stock are entitled to elect as a separate class pursuant to TripAdvisor's restated certificate of incorporation.

On August 27, 2014, the entire beneficial ownership of our common stock and Class B common stock held by Liberty Interactive Corporation ("Liberty") was transferred to Liberty TripAdvisor Holdings, Inc. ("LTRIP"). Simultaneously, Liberty, LTRIP's former parent company, distributed, by means of a dividend, to the holders of its Liberty Ventures common stock, Liberty's entire equity interest in LTRIP. We refer to this transaction as the Liberty Spin-Off. As a result of the Liberty Spin-Off, effective August 27, 2014, LTRIP became a separate, publicly traded company and 100% of Liberty's interest in TripAdvisor was held by LTRIP. Liberty also assigned to LTRIP its rights and obligations under the Governance Agreement between TripAdvisor and Liberty, dated December 20, 2011 (the "Governance Agreement").

As a result of these transactions, as of the record date, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 14.1% of the outstanding shares of common stock and 100% of the outstanding shares of Class B Common Stock. Assuming the conversion of all of the LTRIP's shares of Class B common stock into common stock, as of the record date LTRIP would beneficially own 21.9% 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, as of the record date LTRIP may be deemed to beneficially own equity securities representing 57.0% of our voting power. As a result, regardless of the vote of any other TripAdvisor stockholder, LTRIP has control over the vote relating to

(i) the election of six of the eight director nominees and (ii) the ratification of the appointment of KPMG LLP as TripAdvisor's independent registered public accounting firm for the fiscal year ending December 31, 2017.

Quorum; Abstentions; Broker Non-Votes

Transaction of business at the Annual Meeting may occur if a quorum is present. If a quorum is not present, it is expected that the Annual Meeting will be adjourned or postponed in order to permit additional time for soliciting and obtaining additional proxies or votes, and, at any subsequent reconvening of the Annual Meeting, all proxies will be voted in the same manner as such proxies would have been voted at the original convening of the Annual Meeting, except for any proxies that have been effectively revoked or withdrawn.

With respect to (i) the election of six of the eight director nominees and (ii) the ratification of the appointment of KPMG LLP as TripAdvisor's independent registered public accounting firm for the fiscal year ending December 31, 2017, the presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the total votes entitled to be cast constitutes a quorum. For the election of the two directors whom the holders of TripAdvisor common stock are entitled to elect as a separate class, the presence at the Annual Meeting, in person or by proxy, of the holders of a majority of shares of common stock constitutes a quorum.

If a share is represented for any purpose at the meeting, it is deemed to be present for quorum purposes and for all other matters as well. Shares of TripAdvisor capital stock represented by a properly executed proxy will be treated as present at the Annual Meeting for purposes of determining a quorum, without regard to whether the proxy is marked as casting a vote or abstaining.

Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote the shares on a proposal because the nominee does not have discretionary voting power for a particular item and has not received instructions from the beneficial owner regarding voting. Brokers who hold shares for the accounts of their clients have discretionary authority to vote shares if specific instructions are not given with respect to the ratification of the appointment of our independent registered public accounting firm. Brokers do not have discretionary authority to vote on the election of our directors, so we encourage you to provide instructions to your broker regarding the voting of your shares.

Solicitation of Proxies

TripAdvisor will bear the cost of the solicitation of proxies from its stockholders. In addition to solicitation by mail, the directors, officers and employees of TripAdvisor, without additional compensation, may solicit proxies from stockholders by telephone, by letter, by facsimile, in person or otherwise. Following the original mailing of the proxies and other soliciting materials, TripAdvisor will ask brokers, trusts, banks or other nominees to forward copies of the proxy and other soliciting materials to persons for whom they hold shares of TripAdvisor capital stock and to request authority for the exercise of proxies. In such cases, TripAdvisor, upon the request of the brokers, trusts, banks and other stockholder nominees, will reimburse such holders for their reasonable expenses.

Voting of Proxies

The manner in which your shares may be voted depends on whether you are a:

- *Registered stockholder:* Your shares are represented by certificates or book entries in your name on the records of TripAdvisor's stock transfer agent and you have the right to vote those shares directly; or
- *Beneficial stockholder:* You hold your shares "in street name" through a broker, trust, bank or other nominee and you have the right to direct your broker, trust, bank or other nominee on how to vote the shares in your account; however, you must request and receive a valid proxy from your broker, trust, bank or other nominee.

Whether you hold shares directly as a registered stockholder or beneficially as a beneficial stockholder, you may direct how your shares are voted without attending the Annual Meeting. For directions on how to vote, please refer to the instructions below and those on the Notice of Internet Availability of Proxy Materials, proxy card or voting instruction form provided. To vote using the Internet or by telephone, you will be required to enter the control number included on your Notice of Internet Availability of Proxy Materials or other voting instruction form provided by your broker, trust, bank or other nominee.

- *Using the Internet.* Registered stockholders may vote using the Internet by going to www.proxyvote.com and following the instructions. Beneficial stockholders may vote by accessing the website specified on the voting instruction forms provided by their brokers, trusts, banks or other nominees.
- *By Telephone.* Registered stockholders may vote, from within the United States, using any touch-tone telephone by calling 1-800-690-6903 and following the recorded instructions. Beneficial owners may vote, from within the United States, using any touch-tone telephone by calling the number specified on the voting instruction forms provided by their brokers, trusts, banks or other nominees.
- *By Mail.* Registered stockholders may submit proxies by mail by requesting printed proxy cards and marking, signing and dating the printed proxy cards and mailing them in the accompanying pre-addressed envelopes. Beneficial owners may vote by marking, signing and dating the voting instruction forms provided by their brokers, trusts, banks or other nominees and mailing them in the accompanying pre-addressed envelopes.

All proxies properly submitted and not revoked will be voted at the Annual Meeting in accordance with the instructions indicated thereon. If no instructions are provided, such proxies will be voted FOR proposals (1) and (2) described in this Proxy Statement.

TripAdvisor is incorporated under Delaware law, which specifically permits electronically transmitted proxies, provided that each such proxy contains, or is submitted with, information from which the inspector of elections can determine that such proxy was authorized by the stockholder. The electronic voting procedures provided for the Annual Meeting are designed to authenticate each stockholder by use of a control number, to allow stockholders to vote their shares and to confirm that their instructions have been properly recorded.

Voting in Person at the Annual Meeting

You may also vote in person at the Annual Meeting. Votes in person will replace any previous votes you have made by mail or telephone or via the Internet. We will provide a ballot to registered stockholders who request one at the meeting. Shares held in your name as the stockholder of record may be voted on that ballot. Shares held beneficially in street name may be voted on a ballot only if you bring a legal proxy from the broker, trust, bank or other nominee that holds your shares giving you the right to vote the shares. Attendance at the Annual Meeting without voting or revoking a previous proxy in accordance with the voting procedures will not in and of itself revoke a proxy.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, please take the time to vote via the Internet, by telephone or by returning your marked, signed and dated proxy card so that your shares will be represented at the Annual Meeting.

Revocation of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it any time before the taking of the vote at the Annual Meeting.

If you are a beneficial stockholder, you may revoke your proxy or change your vote only by following the separate instructions provided by your broker, trust, bank or other nominee.

If you are a registered stockholder, you may revoke your proxy at any time before it is exercised at the Annual Meeting by (i) delivering written notice, bearing a date later than the proxy, stating that the proxy is revoked, (ii) submitting a later-dated proxy relating to the same shares by mail or telephone or via the Internet prior to the vote at the Annual Meeting or (iii) attending the Annual Meeting and properly giving notice of revocation to the inspector of elections or voting in person. Registered holders may send any written notice or request for a new proxy card to TripAdvisor, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, New York 11717, or follow the instructions provided on the Notice of Internet Availability of Proxy Materials and proxy card to submit a new proxy by telephone or via the Internet. Registered holders may also request a new proxy card by calling 1-800-579-1639.

Other Business

The Board of Directors does not presently intend to bring any business before the Annual Meeting other than the proposals discussed in this Proxy Statement and specified in the Notice of Annual Meeting of Stockholders. The Board of Directors has no knowledge of any other matters to be presented at the Annual Meeting other than those described in this Proxy Statement. If any other matters should properly come before the Annual Meeting, the persons designated in the proxy will vote on them according to their best judgment.

PROPOSAL 1: ELECTION OF DIRECTORS

Overview

Our Board of Directors currently consists of eight members. Pursuant to the terms of TripAdvisor's bylaws, each director serves for a one-year term from the date of his or her election and until such director's successor is elected or until such director's earlier resignation or removal. Each of the eight nominees is named below and the Board of Directors recommends that each be elected to serve a one-year term and until such director's successor shall have been duly elected and qualified or until such director's earlier resignation or removal:

Gregory B. Maffei
Stephen Kaufer
Dipchand (Deep) Nishar
Jeremy Philips
Spencer M. Rascoff
Albert E. Rosenthaler
Sukhinder Singh Cassidy
Robert S. Wiesenthal

TripAdvisor's restated certificate of incorporation provides that the holders of TripAdvisor common stock, acting as a single class, are entitled to elect a number of directors equal to 25% of the total number of directors, rounded up to the next whole number, which will be two directors as of the date of the Annual Meeting. The Board has designated Messrs. Philips and Wiesenthal as nominees for the positions on the Board to be elected by the holders of TripAdvisor common stock voting as a separate class.

Pursuant to the Governance Agreement, LTRIP has the right to nominate up to a number of directors equal to 20% of the total number of the directors on the Board of Directors (rounded up to the next whole number if the number of directors on the Board of Directors is not an even multiple of five) for election to the Board of Directors and has certain other rights regarding committee participation, so long as certain stock ownership requirements applicable to LTRIP are satisfied. LTRIP has designated Messrs. Maffei and Rosenthaler as its nominees to the Board of Directors.

Although management does not anticipate that any of the nominees named above will be unable or unwilling to stand for election, in the event of such an occurrence, proxies may be voted for a substitute nominee designated by the Board of Directors.

Information Regarding Director Nominees

The information provided below about each nominee is as of the date of this Proxy Statement. The information presented includes the names of each of the nominees, along with his or her age, any positions held with the company, term of office as a director, principal occupations or employment for the past five years or more, involvement in certain legal proceedings, if applicable, and the names of all other publicly-held companies for which he or she currently serves as a director or has served as a director during the past five years. The information also includes a description of the specific experience, qualifications, attributes and skills of each nominee that led our Board of Directors to conclude that he or she should serve as a director of the company for the ensuing term.

Gregory B. Maffei, age 56, has been the Chairman of the Board of Directors of TripAdvisor since February 2013. Mr. Maffei has served as a director as well as the President and Chief Executive Officer of Liberty Media Corporation ("LMC") (including its predecessor) since May 2007, LTRIP since July 2013 and Liberty Broadband Corporation ("LBC") since June 2014. He has served as President and Chief Executive Officer of Liberty since February 2006 and as a director since November 2005. He also served as CEO-Elect of Liberty from November 2005 through February 2006. Prior to joining Liberty in 2005, Mr. Maffei served as President and Chief Financial Officer of Oracle Corporation; Chairman and Chief Executive Officer of 360networks Corporation and Chief Financial Officer of Microsoft Corporation. Mr. Maffei also currently serves as a director of the following companies: Sirius XM Holdings Inc., Live Nation Entertainment, Inc., Charter Communications, Inc. and Zillow

Group, Inc. Mr. Maffei is a member of the Board of Trustees of Dartmouth College and Council on Foreign Relations. Mr. Maffei previously served on the Board of Directors of Starz, Electronic Arts, Inc., Barnes & Noble, Inc., Citrix Systems, Inc., DirecTV, Starbucks Corp., and Dorling Kindersley Limited. Mr. Maffei holds an M.B.A. from Harvard Business School, where he was a Baker Scholar, and an A.B. from Dartmouth College.

Board Membership Qualifications: Mr. Maffei brings to our Board significant financial and operational experience based on his senior policy-making positions at Liberty, LMC, LBC, LTRIP, Oracle, 360networks and Microsoft and his other public company board experience. He provides our board with an executive and leadership perspective on the operation and management of large public companies and risk management principles.

Stephen Kaufer, age 54, co-founded TripAdvisor in February 2000 and has been the President and Chief Executive Officer of TripAdvisor since that date. Mr. Kaufer has been a director of TripAdvisor since the completion of the spin-off of TripAdvisor from Expedia, Inc. (“Expedia”) in December 2011 (the “Spin-Off”). Mr. Kaufer also serves as President and Chairman of the Board of The TripAdvisor Charitable Foundation, a private charitable foundation. Prior to co-founding TripAdvisor, Mr. Kaufer served as President of CDS, Inc., an independent software vendor specializing in programming and testing tools, and co-founded CenterLine Software and served as its Vice President of Engineering. Mr. Kaufer serves on the boards of several privately-held companies, including CarGurus, LLC, LiveData, Inc., and GlassDoor, Inc., as well as the charity Neuroendocrine Tumor Research Foundation (formerly known as Caring for Carcinoid Foundation). Mr. Kaufer holds an A.B. in Computer Science from Harvard University.

Board Membership Qualifications: As co-founder of TripAdvisor and through his service as its Chief Executive Officer, Mr. Kaufer has extensive knowledge of TripAdvisor’s business and operations, and significant experience in the online advertising sector of the global travel industry. Mr. Kaufer also possesses strategic and governance skills gained through his executive and director roles with several privately-held companies.

Dipchand (Deep) Nishar, age 48, has been a director of TripAdvisor since September 2013. Since June 2015, Mr. Nishar has been Managing Director of SoftBank. Prior to that, from January 2009 to October 2014, Mr. Nishar served in various roles with LinkedIn Corporation, most recently as Senior Vice President, Products and User Experience. From August 2003 to January 2009, Mr. Nishar served in various roles with Google Inc., most recently as the Senior Director of Products for the Asia-Pacific region. Mr. Nishar served on the Board of Directors of OPower, Inc. from August 2013 to June 2016. Mr. Nishar holds an M.B.A. with highest honors (Baker Scholar) from Harvard Business School, an M.S.E.E. from University of Illinois, Urbana-Champaign, and a B.Tech with honors from the Indian Institute of Technology.

Board Membership Qualifications: Mr. Nishar has significant operational experience in those areas which are directly applicable to TripAdvisor’s business and areas of focus. Mr. Nishar has an extensive background in the Internet industry and, in particular, the digital media and online advertising sectors.

Jeremy Philips, age 44, has been a director of TripAdvisor since December 2011. He has been a general partner of Spark Capital since May 2014. From January 2012 until May 2014, Mr. Philips invested in private technology companies. From June 2010 to January 2012, Mr. Philips served as the Chief Executive Officer of Photon Group Limited, a holding company listed on the Australian Securities Exchange. From July 2004 to March 2010, Mr. Philips held various roles of increasing responsibility with News Corporation, most recently as an Executive Vice President in the Office of the Chairman. Prior to joining News Corporation, he served in several roles, including co-founder and Vice-Chairman of ecorp, a publicly traded Internet holding company, and as an analyst at McKinsey & Company. Mr. Philips is a director of several private Internet companies. He is an adjunct professor at Columbia Business School and holds a B.A. and LL.B. from the University of New South Wales and an MPA from the Harvard Kennedy School of Government.

Board Membership Qualifications: Mr. Philips has significant strategic and operational experience, acquired through his service as Chief Executive Officer of Photon Group Limited and other executive-level positions. He also possesses a high level of financial literacy and expertise regarding mergers, acquisitions, investments and other strategic transactions as well as an extensive background in the Internet industry.

Spencer M. Rascoff, age 41, has been a director of TripAdvisor since September 2013. Mr. Rascoff has served as the Chief Executive Officer of Zillow Group, Inc. since September 2010 and has served as a member of its Board of Directors since July 2011. Mr. Rascoff joined Zillow as one of its founding employees in 2005 as Vice President of Marketing and Chief Financial Officer from December 2008 to September 2010. From 2003 to 2005, Mr. Rascoff served as Vice President of Lodging for Expedia. In 1999, Mr. Rascoff co-founded Hotwire, Inc., an online travel company, and managed several of Hotwire's product lines before Hotwire was acquired in 2003 by IAC/InterActiveCorp, or IAC, Expedia's parent company at the time. Mr. Rascoff previously served in the mergers and acquisitions group at Goldman, Sachs & Co., an investment banking and securities firm, and an associate at TPG Capital, a private equity firm. Mr. Rascoff serves on the Seattle Children's Hospital Research Institute Advisory Board. Mr. Rascoff served on the Board of Directors of Julep Beauty Incorporated, a privately-held beauty products company, from February 2013 to December 2016. Mr. Rascoff graduated cum laude with a B.A. in Government and Economics from Harvard University.

Board Membership Qualifications: Mr. Rascoff has significant operational and financial experience, acquired through his current service as Chief Executive Officer and prior service as Chief Financial Officer of Zillow. Mr. Rascoff also possesses a high level of financial literacy and expertise regarding mergers, acquisitions, investments and other strategic transactions as well as an extensive background in the Internet industry and global travel industry.

Albert E. Rosenthaler, age 57, has been a director of TripAdvisor since February 2016. Mr. Rosenthaler has served as Chief Corporate Development Officer of LMC, Liberty and LBC since September 2016 and previously served as Chief Tax Officer from January 2016 to September 2016. Prior to that, Mr. Rosenthaler served as a Senior Vice President of LMC (including its predecessor) from May 2007 to December 2015, a Senior Vice President of Liberty from April 2002 to December 2015 and a Senior Vice President of LBC from June 2014 to December 2015. Mr. Rosenthaler has also served on the Board of Directors of LTRIP since August 2014. He is a graduate of Olivet College (B.A.) and University of Illinois (M.A.S.).

Board Membership Qualifications: Mr. Rosenthaler has significant executive and financial experience gained through his service as Senior Vice President of Liberty and LMC for many years and as a partner of a major national accounting firm for more than five years prior to joining Liberty. Mr. Rosenthaler brings a unique perspective to our Board of Directors, focused in particular on the area of tax management. Mr. Rosenthaler's perspective and expertise assist the Board in developing strategies that take into consideration a wide range of issues resulting from the application and evolution of tax laws and regulations.

Sukhinder Singh Cassidy, age 47, has been a director of TripAdvisor since December 2011. In January 2011, Ms. Singh Cassidy founded Joyus, a video commerce platform. She currently serves as Founder and Chairman of the Board of Joyus and previously served as Chief Executive Officer from January 2011 to February 2017. From March 2010 to September 2010, Ms. Singh Cassidy served as Chief Executive Officer and Chairman of the Board of Polyvore, Inc., a privately-held social commerce website. From April 2009 to March 2010, she was CEO-in-residence at Accel Partners, a global venture and growth equity firm. From October 2003 to April 2009, Ms. Singh Cassidy held various positions at Google Inc., including, most recently, Global Vice President of Sales and Operations for Asia Pacific and Latin America. Previously, Ms. Singh Cassidy worked with Yodlee.com, Amazon.com and News Corporation, and in investment banking with Merrill Lynch & Co., Inc. Ms. Singh Cassidy currently serves on the board of Ericsson (NASDAQ: ERIC) and has previously served on the boards of J. Crew Group, Inc., J. Hilburn, Inc. and StitchFix, Inc. She has also served on the Princeton Computer Science Advisory Council as well as the board of Jobtrain, a non-profit focused on vocational training for troubled youth and adults. Ms. Singh Cassidy graduated from the University of Western Ontario and earned her H.B.A. from the Richard Ivey School of Business.

Board Membership Qualifications: Through her experience as a consumer Internet and media executive, Ms. Singh Cassidy has in-depth knowledge of the online media and advertising sectors. Ms. Singh Cassidy also possesses extensive executive, strategic and operational experience.

Robert S. Wiesenthal, age 50, has been a director of TripAdvisor since December 2011. Since July 2015, Mr. Wiesenthal has served as founder and Chief Executive Officer of FlyBlade, Inc., a short distance aviation company that leverages mobile technology and crowdsourcing business processes. From January 2013 to July 2015, Mr. Wiesenthal served as Chief Operating Officer of Warner Music Group Corp., a leading global music conglomerate. From 2000 to 2012, Mr. Wiesenthal served in various senior executive capacities with Sony Corporation, most recently as Executive Vice President and Chief Financial Officer of Sony Corporation of America. Prior to joining Sony, from 1988 to 2000, Mr. Wiesenthal served in various capacities with Credit Suisse First Boston, most recently as Managing Director. Mr. Wiesenthal previously served on the Board of Directors of Starz. Mr. Wiesenthal has a B.A. from the University of Rochester.

Board Membership Qualifications: Mr. Wiesenthal possesses extensive strategic, operational and financial experience, gained through his wide range of service in executive-level positions with a strong focus on networked consumer electronics, entertainment, and digital media. He also has a high degree of financial literacy and expertise regarding mergers, acquisitions, investments and other strategic transactions.

All of our nominees also have extensive management experience in complex organizations. In addition to the information presented regarding each nominee's specific experience, qualifications, attributes and skills that led the Board of Directors to the conclusion that he or she should be nominated as a director, each nominee has demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment to TripAdvisor and our Board of Directors as demonstrated by the nominee's past service. The Board of Directors considered the NASDAQ requirement that TripAdvisor's Audit Committee be composed of at least three independent directors, as well as specific NASDAQ and U.S. Securities and Exchange Commission ("SEC") requirements regarding financial literacy and expertise.

Required Vote

Election of Ms. Singh Cassidy and Messrs. Maffei, Kaufer, Nishar, Rascoff and Rosenthaler as directors requires the affirmative vote of a plurality of the total number of votes cast by the holders of shares of TripAdvisor common stock and Class B common stock, present in person or represented by proxy, voting together as a single class.

Election of Messrs. Philips and Wiesenthal as directors requires the affirmative vote of a plurality of the total number of votes cast by the holders of shares of TripAdvisor common stock, present in person or represented by proxy, voting together as a separate class.

Valid proxies received pursuant to this solicitation will be voted in the manner specified. With respect to the election of directors, you may vote "FOR" or "WITHHOLD". Where no specification is made, it is intended that the proxies received from stockholders will be voted FOR the election of the director nominees identified. Votes withheld and broker non-votes will have no effect because approval by a certain percentage of voting stock present or outstanding is not required.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES FOR DIRECTOR NAMED ABOVE.

CORPORATE GOVERNANCE

Executive Officers

Set forth below is certain background information, as of April 24, 2017, regarding TripAdvisor's executive officers. There are no family relationships among directors or executive officers of TripAdvisor.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen Kaufer	54	Director, President and Chief Executive Officer
Ernst Teunissen	50	Senior Vice President, Chief Financial Officer and Treasurer
Seth J. Kalvert	47	Senior Vice President, General Counsel and Secretary
Dermot M. Halpin	46	President, Vacation Rentals and Attractions
Barrie Seidenberg	52	Chief Executive Officer, Attractions

Refer to "Proposal 1: Election of Directors" above for information about our President and Chief Executive Officer Stephen Kaufer.

Ernst Teunissen has served as Senior Vice President, Chief Financial Officer and Treasurer of TripAdvisor since November 2015. From October 2009 to October 2015, Mr. Teunissen served in various capacities with Cimpres, N.V. (formerly known as Vistaprint, N.V.), most recently as Executive Vice President and Chief Financial Officer. Before joining Cimpres, Mr. Teunissen was a founder and director of two corporate finance and management consulting firms: Manifold Partners from May 2007 through September 2009 and ThreeStone Ventures Limited from June 2003 through September 2009. From August 1999 to February 2003, Mr. Teunissen served as an Executive Director in Morgan Stanley's Investment Banking Division in London. Mr. Teunissen worked as an Associate Director in Investment Banking at Deutsche Bank from February 1997 to February 1999 and as a Senior Strategy Consultant at Monitor Company from April 1990 to February 1995. Mr. Teunissen holds an M.B.A. from the University of Oregon and a B.A. from Nijenrode University, The Netherlands School of Business.

Seth J. Kalvert has served as Senior Vice President, General Counsel and Secretary of TripAdvisor since August 2011. Mr. Kalvert also serves as Secretary and a director of The TripAdvisor Charitable Foundation, a private charitable foundation. Prior to joining TripAdvisor, from March 2005 to August 2011, Mr. Kalvert held positions at Expedia, most recently as Vice President and Associate General Counsel. Prior to that, Mr. Kalvert worked at IAC. Mr. Kalvert began his career as an associate at Debevoise & Plimpton, LLP, a New York law firm. Mr. Kalvert also serves on the Board of Directors of Citizen Schools and as Secretary and a director of the Internet Association, an industry trade group. Mr. Kalvert holds an A.B. from Brown University and a J.D. from Columbia Law School.

Dermot M. Halpin currently serves as President of TripAdvisor's Vacation Rentals and Attractions divisions. Mr. Halpin has been serving as President of the Vacation Rentals division since December 2011 and assumed responsibility for the Attractions division in November 2016. Mr. Halpin served as a board member, commencing June 2009 and Chief Executive Officer commencing November 2009 of Autoquake, a venture-backed consumer Internet business, until his resignation in March 2011. Prior to Autoquake, from October 2001 to December 2008, Mr. Halpin worked at Expedia, most recently serving as President of Expedia EMEA (Europe, Middle East and Africa). Before joining Expedia, Mr. Halpin worked at several technology-driven businesses. Mr. Halpin holds an M.B.A. from INSEAD and studied engineering at University College Dublin, Ireland.

Barrie Seidenberg has served as the Chief Executive Officer of the Attractions division of TripAdvisor since TripAdvisor acquired Viator, Inc. in August 2014. Ms. Seidenberg joined Viator as President in 2005 and took on the additional role of Chief Executive Officer in 2008. Before joining Viator, Ms. Seidenberg was Chief Marketing Officer at Preview Travel, one of the early leaders in online travel. She has previously held senior-level positions with Atinera, Williams-Sonoma and American Express. Ms. Seidenberg received a B.A. from Yale University and an M.B.A. from the Stanford Graduate School of Business.

Board of Directors

Director Independence

Under the NASDAQ Stock Market Listing Rules (the “NASDAQ Rules”), the Board has a responsibility to make an affirmative determination that those members of the Board who serve as independent directors do not have any relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In connection with the independence determinations described below, the Board reviewed information regarding transactions, relationships and arrangements relevant to independence, including those required by the NASDAQ Rules. This information is obtained from director responses to questionnaires circulated by management, as well as our records and publicly available information. Following this determination, management monitors those transactions, relationships and arrangements that were relevant to such determination, as well as solicits updated information potentially relevant to independence from internal personnel and directors, to determine whether there have been any developments that could potentially have an adverse impact on the Board’s prior independence determination.

The Board of Directors has determined that each of Ms. Singh Cassidy and Messrs. Nishar, Philips, Rascoff and Wiesenthal is an “independent director” as defined by the NASDAQ Rules. In making its independence determinations, the Board of Directors considered the applicable legal standards and any relevant transactions, relationships or arrangements. In addition to the satisfaction of the director independence requirements set forth in the NASDAQ Rules, members of the Audit Committee and Compensation Committees have also satisfied separate independence requirements under the current standards imposed by the SEC and the NASDAQ Rules for audit committee members and by the SEC, NASDAQ Rules and the Internal Revenue Service for compensation committee members.

Controlled Company Status

On August 27, 2014, the entire beneficial ownership of our common stock and Class B common stock held by Liberty was transferred to LTRIP. Simultaneously, Liberty, LTRIP’s former parent company, distributed, by means of a dividend, to the holders of its Liberty Ventures common stock, Liberty’s entire equity interest in LTRIP. We refer to this transaction as the Liberty Spin-Off. As a result of the Liberty Spin-Off, effective August 27, 2014, LTRIP became a separate, publicly traded company and 100% of Liberty’s interest in TripAdvisor was held by LTRIP.

As of the record date, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 14.1% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock, respectively. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.9% of the outstanding common stock. Because each share of Class B common stock generally is entitled to ten votes per share and each share of common stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing approximately 57.0% of our voting power. LTRIP has filed a Statement of Beneficial Ownership on Schedule 13D with respect to its TripAdvisor holdings and related voting arrangements with the SEC.

The NASDAQ Rules exempt “controlled companies,” or companies of which more than 50% of the voting power is held by an individual, a group or another company, such as TripAdvisor, from certain governance requirements under the NASDAQ Rules, including, among other items, the requirement that our Board of Directors be comprised of a majority of independent directors. On this basis, TripAdvisor is relying on the exemption for controlled companies from certain requirements under the NASDAQ Rules, including, among others, the requirement that the Compensation Committees be composed solely of independent directors and certain requirements relating to the nomination of directors. We may, in the future, rely on other exemptions available to a controlled company, including, among others, the requirement that a majority of the Board of Directors be composed of independent directors.

Board Leadership Structure

Mr. Maffei serves as the Chairman of the Board of Directors, and Mr. Kaufer serves as President and Chief Executive Officer of TripAdvisor. The roles of Chief Executive Officer and Chairman of the Board of Directors are currently separated in recognition of the differences between the two roles. This leadership structure provides us with the benefit of Mr. Maffei's oversight of TripAdvisor's strategic goals and vision, coupled with the benefit of a full-time Chief Executive Officer dedicated to focusing on the day-to-day management and continued growth of TripAdvisor and its operating businesses. We believe that it is in the best interests of our stockholders for the Board of Directors to make a determination regarding the separation or combination of these roles each time it elects a new Chairman or Chief Executive Officer based on the relevant facts and circumstances applicable at such time.

Independent members of the Board of Directors chair our Audit Committee, Compensation Committee and Section 16 Committee.

Meeting Attendance

The Board of Directors met four times in 2016 and acted by written consent one time. During such period, each member of the Board of Directors attended at least 75% of the meetings of the Board and the Board committees on which they served. The independent directors meet in regularly scheduled sessions, typically before or after each Board meeting, without the presence of management. We do not have a lead independent director or any other formally appointed leader for these sessions. Directors are encouraged but not required to attend annual meetings of TripAdvisor stockholders. All of the incumbent directors who were directors at the time have historically attended the annual meetings of stockholders.

Committees of the Board of Directors

The Board of Directors has the following standing committees: the Audit Committee, the Compensation Committee, the Section 16 Committee and the Executive Committee. The Audit, Compensation and Section 16 Committees operate under written charters adopted by the Board of Directors. These charters are available in the "Corporate Governance" section of the Investor Relations page of TripAdvisor's corporate website at ir.tripadvisor.com. At each regularly scheduled Board meeting, the Chairperson of each committee provides the full Board of Directors with an update of all significant matters discussed, reviewed, considered and/or approved by the relevant committee since the last regularly scheduled Board meeting. The membership of our Audit, Compensation and Section 16 Committees ensures that directors with no ties to Company management are charged with oversight for all financial reporting and executive compensation related decisions made by Company management.

The following table sets forth the current members of each committee of the Board of Directors.

<u>Name</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Section 16 Committee</u>	<u>Executive Committee</u>
Gregory B. Maffei	—	X	—	X
Stephen Kaufer	—	—	—	X
Dipchand (Deep) Nishar *	—	X	X	—
Jeremy Philips *	X	—	—	—
Spencer M. Rascoff *	X	—	—	—
Albert Rosenthaler	—	—	—	—
Sukhinder Singh Cassidy *	—	Chair	Chair	—
Robert S. Wiesenthal *	Chair	—	—	—

* Independent director

Audit Committee. The Audit Committee of the Board of Directors currently consists of three directors: Messrs. Philips, Rascoff and Wiesenthal. Mr. Wiesenthal is the Chairman of the Audit Committee. Each Audit Committee member satisfies the independence requirements under the current standards imposed by the rules of the SEC and NASDAQ. The Board has determined that each of Messrs. Wiesenthal, Philips and Rascoff is an “audit committee financial expert,” as such term is defined in the regulations promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

The Audit Committee is appointed by the Board of Directors to assist the Board with a variety of matters discussed in detail in the Audit Committee charter, including monitoring (i) the integrity of our financial reporting process, (ii) the independent registered public accounting firm’s qualifications and independence, (iii) the performance of the independent registered public accounting firm and our internal audit department, and (iv) our compliance with legal and regulatory requirements. The Audit Committee met six times in 2016. The formal report of the Audit Committee with respect to the year ended December 31, 2016 is set forth in the section below titled “Audit Committee Report.”

Compensation Committee. The Compensation Committee consists of Ms. Singh Cassidy and Messrs. Maffei and Nishar. Ms. Singh Cassidy is the Chairperson of the Compensation Committee. Each member of the Compensation Committee is an “outside director” for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). With the exception of Mr. Maffei, each member is an “independent director” as defined by the NASDAQ Rules. No member of the Compensation Committee is an employee of TripAdvisor.

The Compensation Committee is responsible for (i) designing and overseeing our compensation with respect to our executive officers, including salary matters, bonus plans and stock compensation plans and (ii) approving all grants of equity awards, but excluding matters governed by Rule 16b-3 under the Exchange Act (which are handled by the Section 16 Committee described below). A description of our policies and practices for the consideration and determination of executive compensation is included in the section below titled “Compensation Discussion and Analysis.” The Compensation Committee met five times in 2016.

Section 16 Committee. The Section 16 Committee consists of Ms. Singh Cassidy and Mr. Nishar. Ms. Singh Cassidy is the Chairperson of the Section 16 Committee. Each member is an “independent director” as defined by the NASDAQ Rules and satisfies the definition of “non-employee director” for purposes of Section 16 of the Exchange Act.

The Section 16 Committee is authorized to exercise all powers of the Board of Directors with respect to matters governed by Rule 16b-3 under the Exchange Act, including approving grants of equity awards to TripAdvisor’s executive officers. The Section 16 Committee met five times in 2016.

In this Proxy Statement, we refer to the Compensation Committee and Section 16 Committee collectively as the “Compensation Committees.”

Executive Committee. The Executive Committee consists of Messrs. Kaufer and Maffei. The Executive Committee has the powers and authority of the Board of Directors, except for those matters that are specifically reserved to the Board of Directors under Delaware law or our organizational documents. The Executive Committee primarily serves as a means to address issues that may arise and require Board approval between regularly scheduled Board meetings. Following are some examples of matters that could be handled by the Executive Committee: (i) oversight and implementation of matters approved by the Board of Directors, (ii) administrative matters with respect to benefit plans, transfer agent matters, banking authority, formation of subsidiaries and other administrative items involving subsidiaries and determinations or findings under TripAdvisor’s financing arrangements and (iii) in the case of a natural disaster or other emergency as a result of which a quorum of the Board of Directors cannot readily be convened for action, directing the management of the business and affairs of TripAdvisor during such emergency or natural disaster. The Executive Committee met informally regularly throughout 2016.

Risk Oversight

Assessing and managing risk is the responsibility of TripAdvisor's management. Our Board of Directors oversees and reviews certain aspects of our risk management efforts. Our Board of Directors is involved in risk oversight through direct decision-making authority with respect to significant matters and the oversight of management by the Board of Directors and its committees. The President and Chief Executive Officer, the Senior Vice President, Chief Financial Officer and Treasurer and the Senior Vice President, General Counsel and Secretary attend Board meetings and discuss operational risks with the Board. Management also provides reports and presentations on strategic risks to the Board. Among other areas, the Board is involved, directly or through its committees, in overseeing risks related to our overall corporate strategy, business continuity, crisis preparedness and competitive and reputational risks.

The committees of the Board execute their oversight responsibility for risk management as follows:

- The Audit Committee has primary responsibility for discussing with management TripAdvisor's major financial risks and the steps management has taken to monitor and control such risks. In fulfilling its responsibilities, the Audit Committee receives regular reports from, among others, the Chief Financial Officer, General Counsel, the Vice President of Tax and the Chief Accounting Officer as well as from representatives of internal audit, the company's compliance committee and our auditors. The Audit Committee makes regular reports to the Board of Directors. In addition, TripAdvisor has, under the supervision of the Audit Committee, established procedures available to all employees for the anonymous and confidential submission of complaints relating to any matter to encourage employees to report questionable activities directly to our senior management and the Audit Committee.
- The Compensation Committee considers and evaluates risks related to our cash and equity-based compensation programs, policies and practices and evaluates whether our compensation programs encourage participants to take excessive risks that are reasonably likely to have a material adverse effect on TripAdvisor or our business. Consistent with SEC disclosure requirements, the Compensation Committee working with management has assessed the compensation policies and practices for our employees, including our executive officers, and has concluded that such policies and practices do not create risks that are reasonably likely to have a material adverse effect on TripAdvisor.

Ultimately, though, management is responsible for the day-to-day risk management process, including identification of key risks and implementation of policies and procedures to manage, mitigate and monitor risks. In fulfilling these duties, management conducts annually an enterprise and internal audit risk assessment and uses the results of these assessments in its risk management efforts. In addition, management has formed a Compliance Committee in connection with the implementation, management and oversight of a corporate compliance program to promote operational excellence throughout the entire organization in adherence with all legal and regulatory requirements and with the highest ethical standards

Director Nominations

Given the ownership structure of TripAdvisor and our status as a "controlled company," the Board of Directors does not have a nominating committee or other committee performing similar functions or any formal policy on director nominations. The Board of Directors does not have specific requirements for eligibility to serve as a director of TripAdvisor, nor does it have a specific policy on diversity; however, the Board of Directors does consider, among other things, diversity when considering nominees to serve on our Board of Directors. We broadly construe diversity to mean diversity of opinions, perspectives, and personal and professional experiences and backgrounds, such as gender, race and ethnicity, as well as other differentiating characteristics. In evaluating candidates, regardless of how recommended, the Board of Directors considers whether the professional and personal ethics and values of the candidate are consistent with those of TripAdvisor, whether the candidate's experience and expertise would be beneficial to the Board in rendering service to TripAdvisor, including in providing a mix of Board members that represent a diversity of backgrounds, perspectives and opinions, whether the candidate is willing and able to devote the necessary time and energy to the work of the Board of Directors, and whether the candidate is prepared and qualified to represent the best interests of TripAdvisor's stockholders.

Pursuant to the Governance Agreement, LTRIP has the right to nominate a number of directors equal to 20% of the total number of the directors on the Board of Directors (rounded up to the next whole number if the number of directors on the Board is not an even multiple of five) for election to the Board of Directors so long as certain stock ownership requirements are satisfied. LTRIP has nominated Messrs. Maffei and Rosenthaler as nominees for 2017. The other nominees to the Board of Directors were recommended by the Chairman and then were considered and recommended by the entire Board of Directors.

The Board of Directors does not have a formal policy regarding the consideration of director candidates recommended by stockholders, as historically TripAdvisor has not received such recommendations. However, the Board of Directors would consider such recommendations if made in the future. Stockholders who wish to make such a recommendation should send the recommendation to TripAdvisor, Inc., 400 1st Avenue, Needham, Massachusetts 02494, Attention: Secretary. The envelope must contain a clear notation that the enclosed letter is a "Director Nominee Recommendation." The letter must identify the author as a stockholder, provide a brief summary of the candidate's qualifications and history and be accompanied by evidence of the sender's stock ownership, as well as consent by the candidate to serve as a director if elected. Any director candidate recommendations will be reviewed by the Secretary and, if deemed appropriate, forwarded to the Chairman for further review. If the Chairman believes that the candidate fits the profile of a director nominee as described above, the recommendation will be shared with the entire Board of Directors.

Communications with the Board

Stockholders who wish to communicate with the Board of Directors or a particular director may send such communication to TripAdvisor, Inc., 400 1st Avenue, Needham, Massachusetts 02494, Attention: Secretary. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Stockholder-Board Communication" or "Stockholder-Director Communication." All such letters must identify the author as a stockholder, provide evidence of the sender's stock ownership and clearly state whether the intended recipients are all members of the Board of Directors or certain specified directors. The Secretary will then review such correspondence and forward it to the Board of Directors, or to the specified director(s), if deemed appropriate. Communications that are primarily commercial in nature, that are not relevant to stockholders or other interested constituents or that relate to improper or irrelevant topics will generally not be forwarded to the Board of Directors or to the specified director(s).

**PROPOSAL 2:
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Overview

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the external accounting firm retained to audit the Company’s financial statements. The Audit Committee of the Board of Directors has retained KPMG LLP (“KPMG”) as TripAdvisor’s independent registered public accounting firm for the fiscal year ending December 31, 2017.

KPMG has served as TripAdvisor’s independent registered public accounting firm continuously since the audit of the Company’s financial statements for the fiscal year ended December 31, 2014. In order to assure continuing auditor independence, the Audit Committee periodically considers whether there should be a regular rotation of the independent external audit firm. The members of the Audit Committee and the Board believe that the continued retention of KPMG to serve as the Company’s independent external auditor is in the best interest of the Company and its investors. A representative of KPMG is expected to be present at the Annual Meeting, and will be given an opportunity to make a statement if he or she so chooses and will be available to respond to appropriate questions.

If the stockholders fail to vote to ratify the appointment of KPMG, the Audit Committee will reconsider whether to retain KPMG and may retain that firm or another firm without resubmitting the matter to our stockholders. Even if stockholders vote on an advisory basis in favor of the appointment, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of TripAdvisor and our stockholders.

Required Vote

At the Annual Meeting, we will ask our stockholders to ratify the appointment of KPMG as our independent registered public accounting firm for the fiscal year ending December 31, 2017. This proposal requires the affirmative vote of a majority of the voting power of our shares, present in person or represented by proxy, and entitled to vote thereon, voting together as a single class. With respect to the ratification of KPMG, you may vote “FOR”, “AGAINST” or “ABSTAIN”. Abstentions will be counted toward the tabulations of voting power present and entitled to vote on the ratification of the independent registered public accounting firm proposal and will have the same effect as votes against the proposal. Brokers have discretion to vote on the proposal for ratification of the independent registered public accounting firm.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE “FOR”
RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS TRIPADVISOR’S INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017.**

Fees Paid to Our Independent Registered Public Accounting Firm

KPMG was TripAdvisor’s independent registered public accounting firm for the fiscal years ended December 31, 2016 and 2015. The following table sets forth aggregate fees for professional services rendered by KPMG for the years ended December 31, 2016 and 2015.

	2016	2015
Audit Fees(1)	\$ 2,018,754	\$ 1,778,047
Other Fees	2,730	11,650
Total Fees	\$ 2,021,484	\$ 1,789,697

- (1) Audit Fees include fees and expenses associated with the annual audit of our consolidated financial statements, statutory audits, review of our periodic reports, accounting consultations, review of SEC registration statements, report on the effectiveness of internal control and consents and other services related to SEC matters.

Audit and Non-Audit Services Pre-Approval Policy

The Audit Committee has responsibility for appointing, setting compensation of, retaining and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has adopted a policy governing the pre-approval of all audit and permitted non-audit services performed by TripAdvisor's independent registered public accounting firm to ensure that the provision of such services does not impair the independent registered public accounting firm's independence from TripAdvisor and our management. Unless a type of service to be provided by our independent registered public accounting firm has received general pre-approval from the Audit Committee, it requires specific pre-approval by the Audit Committee. The payment for any proposed services in excess of pre-approved cost levels requires specific pre-approval by the Audit Committee.

Pursuant to its pre-approval policy, the Audit Committee may delegate its authority to pre-approve services to one or more of its members, and it has currently delegated this authority to its Chairman, subject to a limit of \$250,000 per approval. The decisions of the Chairman (or any other member(s) to whom such authority may be delegated) to grant pre-approvals must be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee may not delegate its responsibilities to pre-approve services to Company management.

All of the audit-related, tax and all other services provided to us by KPMG in 2016 and 2015 were approved by the Audit Committee by means of specific pre-approvals or pursuant to the procedures contained in the Company's pre-approval policy.

The Audit Committee has considered the non-audit services provided by KPMG in 2016 and 2015, as described above, and believes that they are compatible with maintaining KPMG's independence in the conduct of their auditing functions.

AUDIT COMMITTEE REPORT

Management has the primary responsibility for our financial statements, reporting process and system of internal control over financial reporting. TripAdvisor's independent registered public accounting firm is engaged to audit and express opinions on the conformity of our financial statements to generally accepted accounting principles, and the effectiveness of TripAdvisor's internal control over financial reporting.

The Audit Committee serves as a representative of the Board of Directors and assists the Board in monitoring (i) the integrity of our financial reporting process, (ii) the independent registered public accounting firm's qualifications and independence, (iii) the performance of the independent registered public accounting firm and our internal audit department, and (iv) our compliance with legal and regulatory requirements. In this context, the Audit Committee met six times in 2016 and, among other things, took the following actions:

- appointed KPMG as our auditors, discussed with the auditors the overall scope and plans for the independent audit and pre-approved all audit and non-audit services to be performed by KPMG;
- reviewed and discussed with management and the auditors the audited consolidated financial statements for the year ended December 31, 2016, as well as our quarterly financial statements and interim financial information contained in each quarterly earnings announcement prior to public release;
- discussed with the auditors the matters required to be discussed by the Public Company Accounting Oversight Board ("PCAOB"), and received all written disclosures and letters required by the applicable requirements of the PCAOB;
- discussed with the auditors its independence from TripAdvisor and TripAdvisor's management as well as considered whether the non-audit services provided by the auditors could impair its independence and concluded that such services would not;
- reviewed and discussed with management and the auditors our compliance with the requirements of the Sarbanes-Oxley Act of 2002 with respect to internal control over financial reporting, together with management's assessment of the effectiveness of our internal control over financial reporting and the auditors' audit of internal control over financial reporting; and
- regularly met with KPMG, with and without management present, to discuss the results of their examinations, including the integrity, adequacy and effectiveness of the accounting and financial reporting processes and controls.

Relying on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2016, and the Board approved such inclusion.

No portion of this Audit Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, through any general statement incorporating by reference in its entirety the Proxy Statement in which this report appears, except to the extent that TripAdvisor specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed to be "soliciting material" or "filed" under either the Securities Act or the Exchange Act.

Members of the Audit Committee:

Robert S. Wiesenthal (Chairman)
Jeremy Philips
Spencer Rascoff

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis describes TripAdvisor’s executive compensation program as it relates to our “named executive officers” for fiscal 2016.

<u>Name</u>	<u>Position</u>
Stephen Kaufer	President and Chief Executive Officer
Ernst Teunissen	Senior Vice President, Chief Financial Officer and Treasurer
Seth J. Kalvert	Senior Vice President, General Counsel and Secretary
Dermot M. Halpin	President, Vacation Rentals and Attractions
Barrie Seidenberg	Chief Executive Officer, Attractions

On February 15, 2016, the Company entered into a new employment agreement with Mr. Halpin in connection with his re-location from London to the Company’s corporate offices in Needham, MA. In addition, effective May 19, 2016, the Company entered into a new employment agreement with Mr. Kalvert. Finally, on November 17, 2016, the Company entered into a Transition Services Agreement with Ms. Seidenberg, in response to her indication of her intention to transition from her position as Chief Executive Officer of the Company’s Attractions division. In connection with the foregoing, Mr. Halpin assumed responsibility for the Attractions division to facilitate the transition.

The Board of Directors has a Compensation Committee and a Section 16 Committee that together have primary responsibility for establishing the compensation of our named executive officers. In this Proxy Statement, we refer to the Compensation Committee and Section 16 Committee jointly as the “Compensation Committees.”

Executive Summary and 2016 Business Highlights

We have a pay for performance philosophy that guides all aspects of our compensation decisions. For example:

- annual salary increases are tied to individual performance and business performance over the previous fiscal year;
- annual incentive compensation is structured so that payouts are tied to the achievement of financial targets and require year over year improvement in revenue or share price;
- long-term incentive compensation is structured so that target equity award values are linked to individual and business performance, while realized values are tied to the Company’s share price; and
- the interests of our named executive officers are aligned with those of our stockholders through the granting of a substantial portion of compensation in equity awards with multi-year vesting requirements.

In fiscal 2016, we continued to position our company for long-term growth by focusing on investments in growth initiatives such as completion of the global roll out of our instant booking platform and strengthening our position in Attractions, Restaurants and Vacation Rentals. In addition, user reviews and opinions grew 45% year-over-year and reached 465 million at December 31, 2016, covering approximately 1,060,000 hotels and accommodations, 835,000 vacation rentals, 4.3 million restaurants and 760,000 activities and attractions worldwide.

Compensation Program Objectives

Our executive compensation program is designed to attract, motivate and retain highly skilled employees in executive positions with the business experience and acumen that management and the Compensation Committees believe are necessary for achievement of our long-term business objectives and to ensure that the compensation provided to these executives remains competitive with the compensation paid to similarly situated executives at comparable companies. The executive compensation program is also designed so that it does not encourage our named executive officers to take unreasonable risks relating to our business. In addition, the executive compensation program is designed to reward both short-term and long-term performance and to align the financial interests of our named executive officers with the interests of our stockholders.

Management and the Compensation Committees evaluate both performance and compensation levels to ensure that we maintain our ability to attract and retain outstanding employees in executive positions. To that end, management and the Compensation Committees believe the executive compensation packages provided by TripAdvisor to our named executive officers should include both cash and equity-based compensation.

Roles and Responsibilities

Role of the Compensation and Section 16 Committees

The Compensation Committee is appointed by the Board of Directors and consists entirely of directors who are “outside directors” for purposes of Section 162(m) of the Code. The Compensation Committee currently consists of Ms. Singh Cassidy and Messrs. Maffei and Nishar, with Ms. Singh Cassidy acting as Chairperson of the Compensation Committee. The Compensation Committee is responsible for (i) designing and overseeing our compensation with respect to our executive officers, including salary matters, bonus plans and stock compensation plans and (ii) approving all grants of equity awards, but excluding matters governed by Rule 16b-3 under the Exchange Act (for which the Section 16 Committee has responsibility as described below). Notwithstanding the foregoing, the Compensation Committee has delegated to the Chief Executive Officer of the Company authority to grant certain types of equity awards, subject to certain limitations, to employees other than executive officers.

The Section 16 Committee is also appointed by the Board of Directors and consists entirely of directors who are “non-employee directors” for purposes of Rule 16b-3 under the Exchange Act. The Section 16 Committee currently consists of Ms. Singh Cassidy and Mr. Nishar. The Section 16 Committee is responsible for administering and overseeing matters governed by Rule 16b-3 under the Exchange Act, including approving grants of equity awards to our named executive officers. Ms. Singh Cassidy is also the Chairperson of the Section 16 Committee.

Role of Executive Officers

Management participates in reviewing and refining our executive compensation program. Mr. Kaufer, our President and Chief Executive Officer, annually reviews the performance of TripAdvisor and each named executive officer with the Compensation Committees and makes recommendations with respect to the appropriate base salary, annual bonus and grants of equity awards for each named executive officer, other than in connection with compensation for himself. Based in part on these recommendations and the other factors discussed below, the Compensation Committees review and approve the annual compensation package of each named executive officer.

Role of Compensation Consultant

Pursuant to the Compensation Committee and Section 16 Committee Charter, the Compensation Committees may retain compensation consultants for the purpose of assisting the Compensation Committees in their evaluation of the compensation for our named executive officers. In 2016, the Compensation Committees retained Compensia, Inc. (“Compensia”), a management consulting firm providing executive compensation advisory services to compensation committees and senior management, to assist in an evaluation of TripAdvisor’s compensation peer group, to use the compensation peer group to compile and analyze competitive compensation market data for our named executive officers, to advise on matters related to our long-term incentive compensation structure and to

evaluate equity compensation programs generally. The compensation consultant also consults with the Compensation Committees about director compensation. The Compensation Committees consider input from their compensation consultant as one factor in making decisions with respect to compensation matters, along with information and analysis they receive from management and their own judgment and experience.

Based on consideration of the factors set forth in the rules of the SEC and NASDAQ, the Compensation Committees have determined that their relationship with Compensia and the work performed by Compensia on behalf of the Compensation Committees has not raised any conflict of interest. In addition, in compliance with the Compensation Committee and Section 16 Committee Charter, the Compensation Committees approved the fees paid to Compensia for work performed in 2016 and confirmed that such payments did not exceed \$120,000.

Role of Stockholders

TripAdvisor provides its stockholders with the opportunity to cast an advisory vote to approve the compensation of our named executive officers every three years. In evaluating our 2016 executive compensation program, the Compensation Committees considered the result of the stockholder advisory vote on our executive compensation (the “say-on-pay vote”) held at our Annual Meeting of Stockholders on June 18, 2015, which was approved by over 90% of the votes cast. As a result, the Compensation Committees did not make any significant changes to our executive compensation program for 2016. The Compensation Committees will continue to consider the outcome of the say-on-pay vote when making future compensation decisions for our named executive officers.

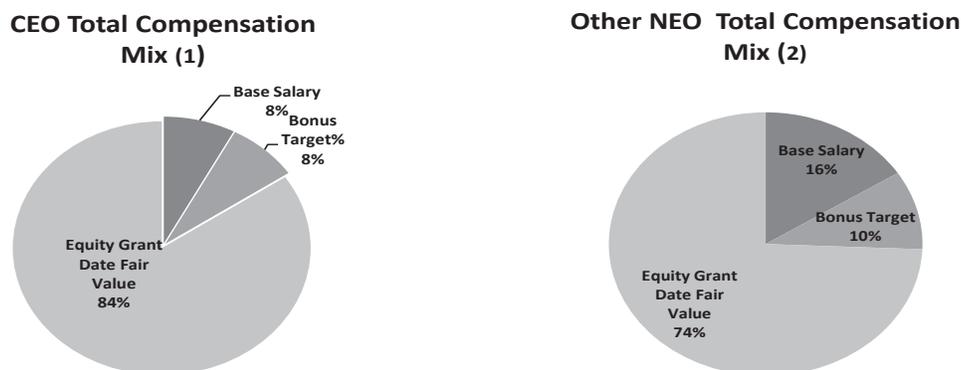
We will hold a say-on-pay vote every three years until the next vote on the frequency of such stockholder advisory votes, which will occur no later than our 2018 Annual Meeting of Stockholders. Our next say-on-pay vote will also be held at the 2018 Annual Meeting of Stockholders.

Compensation Program Elements

General

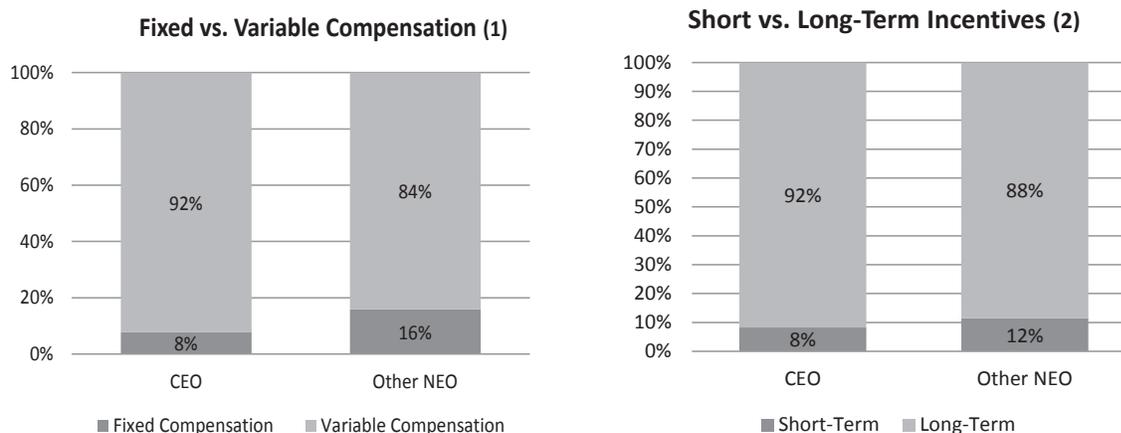
The primary elements of our executive compensation program are base salary, an annual bonus and equity awards. Generally, the Compensation Committees review these elements in the first quarter of each year in light of business and individual performance, recommendations from management and other relevant information, including prior compensation history and outstanding long-term incentive compensation arrangements. Management and the Compensation Committees believe that there are multiple, dynamic factors that contribute to success at an individual and business level. Management and the Compensation Committees have therefore refrained from adopting strict formulas and have relied primarily on a discretionary approach that allows the Compensation Committees to set executive compensation levels on a case-by-case basis, taking into account all relevant factors.

The following chart illustrates the composition of the target total direct compensation for the Chief Executive Officer and for the other current named executive officers between base salary, short term and long term compensation. All elements of compensation are considered to be “at-risk” with the exception of base salary.



- (1) CEO Total Compensation consists of 2016 annualized base salary, 2016 annual bonus, and the grant date fair-value of his 2013 equity grant prorated for the portion of service period attributed to 2016.
- (2) Other NEO Total Compensation is defined as 2016 annualized base salary, 2016 annual bonus, and the 2016 grant date value of annual equity awards as disclosed in the Summary Compensation Table. The Other NEO Total Compensation Mix chart reflects the average Total Compensation of Mr. Teunissen, Mr. Kalvert, Mr. Halpin, and Ms. Seidenberg.

One of the primary objectives of our compensation philosophy is to design pay opportunities that align with our performance and result in strong long-term value creation for our stockholders. The significant weighting of long-term incentive compensation ensures that our named executive officers’ primary focus is sustained long-term performance, while our short-term incentive compensation motivates consistent annual achievement. The following chart illustrates the percentage of compensation which is fixed versus variable and the allocation between short and long-term compensation.



- (1) For our CEO and Other NEOs, Fixed Compensation consists solely of 2016 annualized base salary. For our CEO, Variable Compensation consists of 2016 annual bonus, and the grant date fair-value of the CEO’s 2013 equity grant prorated for the portion of service period attributed to 2016. For Other NEOs, Variable Compensation consists of 2016 annual bonus and the 2016 grant date value of annual equity awards as disclosed in the Summary Compensation Table.
- (2) For our CEO and Other NEOs, short-term incentive compensation consists of 2016 annual bonus. For our CEO, long-term incentive compensation consists of grant date fair-value of the CEO’s 2013 equity grant prorated for the portion of service period attributed to 2016. For Other NEOs, short-term incentive compensation consists of 2016 annual bonus, while long-term incentive compensation is defined as grant date value of annual equity awards as disclosed in the Summary Compensation Table. The Other NEO compensation reflected in the tables above reflects the compensation averages for Mr. Teunissen, Mr. Kalvert, Mr. Halpin and Ms. Seidenberg.

Following recommendations from management, the Compensation Committees may also adjust compensation for specific individuals at other times during the year when there are significant changes in responsibilities or under other circumstances that the Compensation Committees consider appropriate.

Base Salary

Base salary represents the fixed portion of a named executive officer's compensation and is intended to provide compensation for expected day-to-day performance. A named executive officer's base salary is initially determined upon hire or promotion based on his or her responsibilities, prior experience, individual compensation history and salary levels of other executives within TripAdvisor and similarly situated executives at comparable companies. Base salary is typically reviewed annually, at which time management makes recommendations to the Compensation Committees based on consideration of a variety of factors including, but not limited to, the following:

- the named executive officer's total compensation relative to other executives in similarly situated positions,
- his or her individual performance relative to performance goals established between our President and Chief Executive Officer and the named executive officer,
- his or her responsibilities, prior experience, and individual compensation history, including any non-standard compensation,
- the terms of his or her employment agreement, if any,
- competitive compensation market data, when available,
- general economic conditions, and
- the recommendations of the President and Chief Executive Officer (other than in connection with his own compensation).

After careful consideration of the factors discussed above with respect to each of the named executive officers, the Compensation Committees approved 2016 salary changes for our named executive officers. The table below describes, for each named executive officer, the 2015 base salary, the base salary increase and the 2016 base salary.

Name	Annual Salary		
	2015	Increase (Decrease)	2016
Stephen Kaufer	\$ 700,000	\$ -	\$ 700,000
Ernst Teunissen (1)	\$ 425,000	\$ -	\$ 425,000
Seth Kalvert	\$ 398,475	\$ 26,525	\$ 425,000
Dermot M. Halpin (2)	\$ 390,000	\$ 10,000	\$ 400,000
Barrie Seidenberg	\$ 350,000	\$ 50,000	\$ 400,000

- (1) Mr. Teunissen's employment commenced on November 9, 2015 and the salary information reflects his annual base salary effective that date.
- (2) Mr. Halpin's base salary was paid in GBP until October 1, 2015, after which Mr. Halpin relocated to the United States and his base salary began to be paid in USD at an annual rate of \$390,000. The amounts set forth above represent Mr. Halpin's 2015 base salary as of October 1, 2015 and 2016 base salary stated in terms of USD.

Adjustments were made to the annual base salary of the named executive officers, primarily in acknowledgement of the extent to which they had achieved their individual performance goals and in response to the analysis provided by Compensia on competitive compensation market data for executive officers within our peer group in comparable positions.

Annual Bonuses

Annual bonuses are awarded to recognize and reward each named executive officer's annual contribution to Company performance. Unless otherwise provided by the provisions of his or her employment agreement, the target annual bonus opportunities for our named executive officers are generally established by the Compensation Committees, based on competitive market data and recommendations by the President and Chief Executive Officer (other than in connection with his own compensation).

In February 2017, management recommended bonuses with respect to calendar year 2016 for each of our named executive officers after taking into account a variety of factors including, but not limited to, the following:

- TripAdvisor's business and financial performance, including year-over-year performance,
- TripAdvisor's performance against strategic initiatives,
- the named executive officer's target bonus opportunity, if any,
- his or her individual performance,
- the overall funding of the bonus pool,
- the amount of bonus relative to other TripAdvisor executives,
- general economic conditions,
- competitive compensation market data, when available, and
- the recommendations of the President and Chief Executive Officer (other than in connection with his own compensation).

Annual incentive bonuses awarded to our named executive officers for 2016 were subject to the achievement of performance goals relating either to stock price performance or revenue, which were satisfied. These performance goals were designed to permit TripAdvisor to deduct all named executive officer compensation for 2016 in accordance with Section 162(m) of the Code. Specifically, the bonuses awarded to our named executive officers in 2016 were subject to the satisfaction of one of the following performance goals:

- The revenues of TripAdvisor in fiscal 2016 must be greater than revenues in fiscal 2015, excluding the benefit of any acquisitions by TripAdvisor during this period; or
- The closing price per share of TripAdvisor common stock as reported on Nasdaq shall be at least 5% higher than the closing price of TripAdvisor's common stock on February 3, 2016, which was \$62.77 per share, on any 30 trading days during the period beginning February 3, 2016 and ending December 31, 2016 (such days not necessarily consecutive), taking into account any Share Change or Corporate Transaction (each as defined in the TripAdvisor Amended and Restated 2011 Stock and Annual Incentive Plan (the "2011 Plan")).

In general, these performance goals reflect the minimally acceptable Company performance that must be achieved for bonuses to be awarded to our named executive officers, but with respect to which there is substantial uncertainty when established. The Compensation Committees may exercise negative discretion in making the annual bonus awards. As a result, while performance targets were used in setting compensation under this plan, ultimately the levels of those targets and the Compensation Committees' use of negative discretion typically result in the award of compensation as if the annual incentive plan were operating as a discretionary plan.

After consideration of the factors discussed above (including confirmation of satisfaction of the performance goals established for the Company and individual performance goals established between our President and Chief Executive Officer and the named executive officers), the Compensation Committees awarded 2016 bonuses to our named executive officers. The table below describes, for each named executive officer, the target bonus for 2016, the actual bonus paid and percentage of bonus paid relative to target.

<u>Name</u>	<u>Target Bonus as % of Base Salary</u>	<u>Target Bonus</u>	<u>Bonus Award</u>	<u>Percentage of Award to Target</u>
Stephen Kaufer (1)	100%	\$ 700,000	\$ 525,000	75%
Ernst Teunissen	75%	\$ 318,750	\$ 255,000	80%
Seth Kalvert	66%	\$ 284,750	\$ 227,800	80%
Dermot M. Halpin	50%	\$ 200,000	\$ 180,000	90%
Barrie Seidenberg	50%	\$ 200,000	\$ 195,000	98%

- (1) Upon consideration of Mr. Kaufer's accomplishments during fiscal 2016, the Compensation Committee determined to pay Mr. Kaufer's bonus at 75% of target; however, 1/3 of the target bonus (or \$175,000) was paid in cash, 1/3 was paid in a fully vested award of restricted stock units, or RSUs, and 1/3 was paid in a fully vested award of stock options.

Equity Awards

The Compensation Committees use equity awards to align executive compensation with our long-term performance. Equity awards link compensation to financial performance because their value depends on TripAdvisor's share price. Equity awards are also an important employee retention tool because they generally vest over a multi-year period, subject to continued service by the award recipient.

Equity awards are typically granted to our named executive officers upon hire or promotion and annually thereafter. Management generally recommends annual equity awards in the first quarter of each year when the Compensation Committees meet to make determinations regarding annual bonuses for the last completed fiscal year and to set compensation levels for the current fiscal year. The practice of the Compensation Committees is to generally grant equity awards to our named executive officers only in open trading windows.

Typically, equity awards have been in the form of awards of RSUs and/or options to purchase shares of TripAdvisor common stock or some combination of the two. Stock options have an exercise price equal to the market price of TripAdvisor common stock on the date of grant, and, therefore, provide value to our named executive officers only if our stock price increases. Stock options generally vest over a period of four years. We believe stock options incentivize our named executive officers to sustain increases in stockholder value over extended periods of time. RSUs are a promise to issue shares of our common stock in the future provided the named executive officer remains employed with us through the award's vesting period. RSUs generally vest over a period of four years. RSUs provide the opportunity for capital accumulation and long-term incentive value and are intended to assist in satisfying our retention objectives.

The Compensation Committees review various factors considered by management when they establish TripAdvisor's equity award grant pool including, but not limited to, the following:

- TripAdvisor's business and financial performance, including year-over-year performance,
- dilution rates, taking into account projected headcount growth and employee turnover,
- non-cash compensation as a percentage of earnings before interest, taxes, depreciation and amortization,
- equity compensation utilization by peer companies,
- general economic conditions, and
- competitive compensation market data regarding award values.

For specific awards to our named executive officers, management makes recommendations to the Section 16 Committee based on a variety of factors including, but not limited to, the following:

- TripAdvisor’s business and financial performance, including year-over-year performance,
- individual performance and future potential of the executive,
- the overall size of the equity award pool,
- award value relative to other TripAdvisor executives,
- the value of previous awards and amount of outstanding unvested equity awards,
- competitive compensation market data, to the degree that the available data is comparable, and
- the recommendations of the President and Chief Executive Officer (other than in connection with his own compensation).

After review and consideration of the recommendations of management and the President and Chief Executive Officer (other than with respect to awards for himself), the Section 16 Committee decides whether to grant equity awards to our named executive officers. After consideration of the factors discussed above, in February 2016, the Section 16 Committee granted the equity awards described below in connection with our annual equity awards program.

<u>Name</u>	<u>Grant Date Fair Value</u>	<u>Number of Stock Options</u>	<u>Number of RSUs</u>
Ernst Teunissen	\$ 999,978	-	15,845
Seth Kalvert	\$ 1,699,799	34,950	13,468
Dermot M. Halpin	\$ 2,499,735	51,398	19,806
Barrie Seidenberg	\$ 2,499,735	51,398	19,806

Each of the equity awards described above vests in four equal annual installments commencing on February 15, 2017. The stock options are exercisable at a price of \$63.11 per share.

Employee Benefits

In addition to the primary elements of compensation described above, our named executive officers also participate in employee benefits programs available to our employees generally, including, for named executive officers residing in the United States, the TripAdvisor Retirement Savings Plan. Under this plan, TripAdvisor matches 50% of each dollar a participant contributes, up to the first 6% of eligible compensation, subject to tax limits. Prior to his relocation from the United Kingdom to the United States, Mr. Halpin participated in our UK pension scheme, pursuant to which we match 100% of participant contributions, up to the first 5% of eligible compensation. Following his relocation to the United States, Mr. Halpin was eligible for the benefits described above with respect to the TripAdvisor Retirement Savings Plan.

In addition, we provide other benefits to our named executive officers on the same basis as all of our domestic employees generally. These benefits include group health (medical, dental, and vision) insurance, group disability insurance, and group life insurance.

In situations where a named executive officer is required to relocate, TripAdvisor also provides relocation benefits, including reimbursement of moving expenses, temporary housing and other relocation expenses as well as a tax gross-up payment on the relocation benefits. In 2015, Mr. Halpin relocated from the United Kingdom to our corporate headquarters in Needham, Massachusetts and received such relocation support as disclosed in the Summary Compensation Table. In connection with Mr. Halpin’s relocation to the United States, the Company and Mr. Halpin entered into a new employment agreement providing for, among other things, the payment of Mr. Halpin’s compensation in U.S. Dollars. Pursuant to that new employment agreement, the Company also agreed to

reimburse Mr. Halpin for fees and expenses associated with the preparation of this 2016 and 2017 tax returns and a personal travel allowance of \$20,000 per year as well as a tax-gross up payment on the personal travel benefits.

TripAdvisor also sponsors a Global Personal Travel Reimbursement program generally available to all employees, including our named executive officers, that provides for reimbursement of up to \$750 a year for leisure travel that is arranged using one of the TripAdvisor Media Group family of products and provides all employees, including our named executive officers, an annual holiday bonus in the form of a gift card as well as a tax gross-up payment on the value of the gift card.

Compensation Program and Other Policies

Executive Compensation Recovery or “Clawback”

TripAdvisor has an executive compensation recovery, or clawback, provision in our form of award agreements providing for recoupment of equity compensation. Each of TripAdvisor’s equity award documents provides that in the event an employee is terminated for Cause (as defined in the 2011 Plan) or resigns within two years after any event or circumstance that would have been grounds for termination of employment for Cause, then the employee agrees that certain equity securities issued to such employee (whether or not vested) may be forfeited and cancelled in their entirety upon such termination of employment. In such event, TripAdvisor may cause the employee to either (i) return the equity securities or shares of common stock issued upon exercise or vesting of such securities, or (ii) pay to TripAdvisor an amount equal to the aggregate amount, if any, that the employee had previously realized in respect of any and all shares of common stock acquired upon exercise or vesting of such equity awards.

We intend to adopt a general clawback policy covering our annual and long-term incentive award plans and arrangements or amend our existing documents once the SEC adopts final rules implementing the requirement of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Insider Trading and Hedging Policy

TripAdvisor has adopted an Insider Trading Policy covering our directors, officers, employees and consultants designed to ensure compliance with relevant SEC regulations, including insider trading rules. TripAdvisor’s Insider Trading Policy also prohibits directors, officers, employees and consultants from engaging in various types of transactions in which they may profit from short-term speculative swings in the value of TripAdvisor securities. These transactions include “short sales” (or selling borrowed securities which the sellers hopes can be purchased at a lower price in the future), “put” and “call” options (or publicly available rights to sell or buy securities within a certain period of time at a specified price or the like) and hedging transactions, such as zero-cost collars and forward sale contracts. The policy also prohibits the pledge or use of company securities as collateral in a margin account or collateral for a loan.

Stock Ownership Guidelines

In October 2015, the Board of Directors adopted guidelines which require that our named executive officers, and members of our Board own shares of our common stock to further align their interests with those of our stockholders. These guidelines require that our named executive officers and directors must directly hold securities having market or intrinsic value which is equal to or greater than a specified multiple of his or her base salary, as set forth below:

- For our President and Chief Executive Officer, four times his annual base salary;
- For all other named executive officers, two times his or her annual base salary; and
- For each non-employee director, three times his or her annual cash retainer.

For purpose of these calculations, 100% of shares of common stock and 50% of vested “in-the-money” stock options are counted. Individuals subject to these guidelines are required to achieve the relevant ownership

threshold on or before the later of December 31, 2020 or five years after commencing service when service begins after the guidelines were adopted.

These stock ownership guidelines were established after consideration of the Compensation Committees' review of market practices of other companies in the Company's peer group with respect to stock ownership guidelines and in an effort to enhance risk mitigation and to more closely align the interests of the Company's executive officers and Board members with those of the Company's stockholders.

Code of Business Conduct and Ethics

In February 2016, our Board of Directors adopted an amended and restated Code of Business Conduct and Ethics applicable to all of our directors, officers, employees, consultants and independent contractors. A copy of the Code of Business Conduct and Ethics is posted on our website at <http://ir.tripadvisor.com/index.cfm>.

Role of Competitive Compensation Market Data

Management considers multiple data sources when reviewing compensation information to ensure that the data reflects compensation practices of relevant companies in terms of size, industry and geographic location. Among other factors, management considers the following information in connection with its recommendations to the Compensation Committees regarding compensation for our named executive officers:

- Data from salary and equity compensation surveys that include companies of a similar size, based on market capitalization, revenues and other factors, and
- Data regarding compensation for certain executive officer positions from recent proxy statements and other SEC filings of peer companies, which include: (i) direct industry competitors, and (ii) non-industry companies with which TripAdvisor commonly competes for talent (including both regional and national competitors).

The Compensation Committees retained Compensia to periodically review the compensation peer group and to recommend possible changes. Our business model is somewhat unique. We use our innovative technology systems and software to attract users and then facilitate transactions between our business partners and those users. Accordingly, Compensia identified comparable companies focusing on publicly-traded companies in the business to consumer ("B2C") and software industries.

In October 2015, based on input from Compensia, the Compensation Committees approved the peer group for purposes of reviewing our executive officers' 2016 base salaries, 2016 annual bonus targets and 2016 equity awards. In November 2016, based on input from Compensia, the Compensation Committees approved the peer group for purposes of reviewing and considering our executive officers' 2017 annual bonus targets, 2017 base salaries and 2017 equity awards. The newly-approved peer group eliminates two companies that were acquired and are no longer public reporting companies and adds three companies to more closely align with TripAdvisor's revenues while also positioning TripAdvisor near the 50th percentile of market capitalization.

Following is a list of the companies currently constituting our peer group:

B2C Internet Companies

Expedia, Inc.
Groupon, Inc.
IAC/InterActiveCorp.
Match Group, Inc.
Netflix Inc.
Pandora Media, Inc.
priceline.com Incorporated
Shutterfly, Inc.
Twitter, Inc.
Wayfair Inc.
Yelp, Inc.
Zillow Group

Software Companies

Akamai Technologies, Inc.
ANSYS, Inc.
Citrix Systems, Inc.
Intuit Inc.
RedHat, Inc.
Splunk, Inc.
VeriSign, Inc.
Workday, Inc.

When available, management and the Compensation Committees consider competitive market compensation paid by peer group companies but does not attempt to maintain a certain target percentile within the compensation peer group or otherwise rely solely on such data when making recommendations to the Compensation Committees regarding compensation for our named executive officers. Management and the Compensation Committees strive to incorporate flexibility into our executive compensation program and the assessment process to respond to and adjust for the evolving business environment and the value delivered by our named executive officers.

Tax Matters

Section 162(m) of the Code generally permits a tax deduction to public corporations for compensation over \$1 million paid in any fiscal year to their chief executive officer and certain other highly compensated executive officers only if the compensation qualifies as “performance-based compensation” for purposes of Section 162(m). The Compensation Committees endeavor to structure the compensation of our executive officers to qualify as “performance-based compensation” when it deems such qualification to be in the best interests of TripAdvisor and its stockholders. Nonetheless, from time to time certain nondeductible compensation may be paid and the Board of Directors and the Compensation Committees reserve the authority to award nondeductible compensation to our executive officers in appropriate circumstances.

For purposes of enabling TripAdvisor to deduct the compensation paid to and recognized by our named executive officers in accordance with Section 162(m) of the Code, the Compensation Committees sought to design the annual bonuses awarded to our named executive officers for 2016 to qualify as “performance-based compensation” as described under “Compensation Program Elements – Annual Bonuses” above.

Post-Employment Compensation

Change in Control

Our 2011 Plan originally provided that equity awards granted to certain executive officers would be entitled to accelerated vesting of certain of their outstanding and unvested equity awards in the event of a Change in Control of TripAdvisor (i.e. a “single trigger” acceleration provision). In August 2013, after further evaluation of the “single trigger” acceleration provisions, the Compensation Committees determined that future equity awards made under the 2011 Plan would not be entitled to “single trigger” acceleration and, instead, the award agreements with respect to such equity awards would provide that any acceleration of vesting of the equity awards would be subject to “double trigger” rather than “single trigger” acceleration. This means that accelerated vesting of outstanding and unvested equity awards granted on or after August 28, 2013, would only occur upon both a change in control and qualified termination of employment.

In June 2016, our stockholders approved an amended and restated 2011 Plan which, among other matters, disallowed any acceleration of prospectively granted equity awards upon a “single trigger” and provided for acceleration of all equity awards upon the death of a participant.

For a description and quantification of change in control payments and benefits for our named executive officers, please see the section below entitled “Potential Payments Upon Termination or Change in Control.”

Severance

The Company has entered into employment agreements with each of Messrs. Kaufer, Kalvert and Teunissen and offer letters with each of Mr. Halpin and Ms. Seidenberg. The offer letter entered into with Ms. Seidenberg was amended pursuant to a Transition Services Agreement entered into in November 2016 in anticipation of Ms. Seidenberg transitioning from her position as Chief Executive Officer, Attractions. Pursuant to these agreements, each of our named executive officers is eligible to receive certain severance payments and benefits in the event of a qualifying termination of employment. The material terms of these employment agreements are described below under the heading “Potential Payments Upon Termination or Change in Control.”

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Ms. Singh Cassidy and Messrs. Maffei and Nishar and the Section 16 Committee consists of Ms. Singh Cassidy and Mr. Nishar. None of Ms. Singh Cassidy or Messrs. Maffei or Nishar was an officer or employee of TripAdvisor, formerly an officer of TripAdvisor, or an executive officer of an entity for which an executive officer of TripAdvisor served as a member of the compensation committee or as a director during the one-year period ended December 31, 2016.

During the last fiscal year, none of our executive officers served as: (1) a member of the compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee; (2) a director of another entity, one of whose executive officers served on our Compensation Committee, or (3) a member of the compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Board.

Compensation Committees Report

This report is provided by the Compensation Committee and the Section 16 Committee (the “Compensation Committees”) of the Board of Directors. The Compensation Committees have reviewed the Compensation Discussion and Analysis and discussed that analysis with management. Based on this review and discussions with management, the Compensation Committees recommended to the Board of Directors that the Compensation Discussion and Analysis be included in TripAdvisor’s 2017 Proxy Statement.

No portion of this Compensation Committees Report shall be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, through any general statement incorporating by reference in its entirety the Proxy Statement in which this report appears, except to the extent that TripAdvisor specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed to be “soliciting material” or “filed” under either the Securities Act or the Exchange Act.

Members of the Compensation Committee:

Sukhinder Singh Cassidy (Chairperson)
Dipchand (Deep) Nishar
Gregory B. Maffei

Members of the Section 16 Committee:

Sukhinder Singh Cassidy (Chairperson)
Dipchand (Deep) Nishar

EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth certain information regarding the compensation earned by our Chief Executive Officer, Chief Financial Officer and three most highly compensated executive officers for services rendered in 2016, 2015 and 2014.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)(1)</u>	<u>Stock Awards (\$)(2)</u>	<u>Option Awards (\$)(2)</u>	<u>All Other Compensation (\$)(3)</u>	<u>Total (\$)</u>
Stephen Kaufer (4) President and Chief Executive Officer	2016	700,000	525,000	—	—	8,110	1,233,110
	2015	700,000	770,000	—	—	8,110	1,478,110
	2014	500,000	700,000	—	—	7,960	1,207,960
Ernst Teunissen (5) Senior Vice President, Chief Financial Officer, and Treasurer	2016	425,000	255,000	999,978	—	8,110	1,688,088
	2015	61,712	53,125	1,999,940	4,999,156	5,508	7,119,441
Seth J. Kalvert Senior Vice President, General Counsel and Secretary	2016	420,817	227,800	849,965	849,834	13,110	2,361,526
	2015	398,475	236,694	799,934	799,906	13,110	2,248,119
	2014	385,000	192,500	384,482	1,152,948	7,960	2,122,890
Dermot M. Halpin (6) President, Vacation Rentals and Attractions	2016	398,423	180,000	1,249,957	1,249,778	58,346	3,136,504
	2015	433,177	211,336	374,986	374,948	274,020	1,668,467
	2014	498,425	229,276	374,983	948,928(7)	248,110	2,299,722
Barrie Seidenberg (8) Chief Executive Officer, Attractions	2016	392,115	195,000	1,249,957	1,249,778	5,160	3,092,010
	2015	350,000	175,000	749,972	749,896	5,160	2,030,028
	2014	100,000	136,875	1,513,205	504,539	160	2,254,779

- (1) The amounts reported in this column represent bonuses (cash and non-cash) paid to all executive officers in 2017, 2016 and 2015 for annual performance in 2016, 2015 and 2014.
- (2) These equity awards are described in more detail in the tables below. We have disclosed the assumptions made in the valuation of the stock awards in “Note 4 - Stock Based Awards and Other Equity Based Instruments” 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.
- (3) See table below for information regarding the 2016 amounts reported.
- (4) In consideration for services rendered in fiscal 2016 and fiscal 2015, the Compensation Committee determined to pay Mr. Kaufer’s annual bonus in the form of cash and non-cash and amounts described above represent the cash and non-cash forms of annual bonus. For 2015, Mr. Kaufer’s bonus was paid \$630,000 in cash and \$140,000 in equity. For 2016, Mr. Kaufer’s bonus was paid \$175,000 in cash and \$350,000 in equity.
- (5) Mr. Teunissen’s employment commenced on November 9, 2015 and the base salary in 2015 reflects only salary earned after his employment commenced. The bonus amount in 2015 was pro-rated for the term of service in that year.
- (6) Mr. Halpin’s base salary was paid in GBP until October 1, 2015, after which Mr. Halpin relocated to the United States and his base salary began to be paid in USD. The portion of Mr. Halpin’s compensation paid in GBP has been converted from GBP to USD at an exchange rate of 1.48 USD:1 GBP for 2015 (which was the exchange rate on December 31, 2015) and 1.64 USD:1 GBP for 2014 (which was the average exchange rate for the year ended December 31, 2014).
- (7) Includes \$574,124 of incremental fair value attributable to a modification of a stock option granted on February 27, 2013.
- (8) Ms. Seidenberg’s employment commenced on August 8, 2014 and the base salary in 2014 reflects only salary earned after her employment commenced.

2016 All Other Compensation

Name	Gift Card \$(a)	Matching Charitable Donation \$(b)	Employer Retirement Contributions \$(c)	Relocation Expenses \$(d)	Tax Gross- Ups \$(e)	Other \$(f)	Total (\$)
Stephen Kaufer	100	—	7,950	—	60	—	8,110
Ernst Teunissen	100	—	7,950	—	60	—	8,110
Seth J. Kalvert	100	5,000	7,950	—	60	—	13,110
Dermot M. Halpin	100	—	7,950	1,150	17,831	31,315	58,346
Barrie Seidenberg	100	5,000	—	—	60	—	5,160

- (a) Represents the amount of a gift card that was given to all employees as a holiday bonus.
- (b) Represents matching charitable contributions made by The TripAdvisor Charitable Foundation on behalf of the named executive officers.
- (c) Represents matching contributions under the TripAdvisor Retirement Savings Plan as in effect through December 31, 2016, pursuant to which TripAdvisor matches \$0.50 for each dollar a participant contributes, up to the first 6% of eligible compensation, subject to certain limits.
- (d) Represents reimbursement of expenses associated with relocation including a housing allowance, home leave, and education assistance for Mr. Halpin's family in relation to his move from the United Kingdom to the United States.
- (e) For all named executive officers except Mr. Halpin, this amount represents a gross-up for the holiday gift card. For Mr. Halpin, the amount represents a tax gross-up in relation to the holiday gift card and expenses associated with a personal travel allowance.
- (f) Represents a personal travel allowance of \$20,000 per year and reimbursement of \$11,315 for personal tax services.

Grants of Plan-Based Awards

The table below provides information regarding the plan-based awards granted to our named executive officers in 2016.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise Price or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards \$(1)
Stephen Kaufer (2) Stock Options	2/22/2016	—	5,756	63.11	139,961
Ernst Teunissen RSUs	2/22/2016	15,845	—	—	999,978
Seth J. Kalvert Stock Options	2/22/2016	—	34,950	63.11	849,834
RSUs	2/22/2016	13,468	—	—	849,965
Dermot M. Halpin Stock Options	2/22/2016	—	51,398	63.11	1,249,778
RSUs	2/22/2016	19,806	—	—	1,249,957
Barrie Seidenberg Stock Options	2/22/2016	—	51,398	63.11	1,249,778
RSUs	2/22/2016	19,806	—	—	1,249,957

- (1) The amounts reported represent the aggregate grant date fair value computed in accordance with U.S. generally accepted accounting principles, or GAAP, and may not correspond to the actual value that will be realized by the executive. See footnote (2) in the Summary Compensation Table above for more information regarding the determination of the grant date fair value of these awards.
- (2) Represents equity grant in connection with non-cash portion of bonus for services rendered in 2015. As a result, the grant date fair value of such award is included in the Summary Compensation Table in the bonus for 2015.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding the holdings of stock options and RSUs by our named executive officers as of December 31, 2016. The market value of the RSUs is based on the closing price of TripAdvisor common stock on the NASDAQ Stock Market on December 30, 2016, the last trading day of the year, which was \$46.37 per share.

Name	Grant Date(1)	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)
		Exercisable	Unexercisable				
Stephen Kaufer	2/23/2010	54,113(2)	—	23.76	2/23/2017	—	—
	3/1/2011	70,785(2)	—	20.87	3/1/2018	—	—
	11/30/2011	235,950(2)	—	29.48	11/30/2018	—	—
	5/4/2012	250,000(2)	—	40.20	5/4/2022	—	—
	8/28/2013	—	1,100,000(3)	72.52	8/28/2020	—	—
	2/22/2016	—	5,756(4)	63.11	2/22/2026	—	—
Ernst Teunissen	12/1/2015	—	—	—	—	12,058(5)	559,129
	12/1/2015	—	141,424(6)	82.93	12/1/2025	—	—
	2/22/2016	—	—	—	—	15,845(7)	734,733
Seth J. Kalvert	3/1/2011	7,079(2)	—	20.87	3/1/2018	—	—
	8/25/2011	17,697(2)	—	28.86	8/25/2018	—	—
	11/30/2011	7,079(2)	—	29.48	11/30/2018	—	—
	5/4/2012	50,000(2)	—	40.20	5/4/2022	—	—
	2/28/2013	37,855	12,618(4)	45.54	2/28/2023	—	—
	2/21/2014	12,264	12,262(4)	96.92	2/21/2024	—	—
	2/21/2014	—	—	—	—	1,983(7)	91,952
	2/26/2015	5,651	16,950(4)	89.86	2/26/2025	—	—
	2/26/2015	—	—	—	—	6,676(7)	309,566
	2/22/2016	—	34,950(4)	63.11	2/22/2026	—	—
	2/22/2016	—	—	—	—	13,468(7)	624,511
Dermot M. Halpin	11/30/2011	6,595(2)	—	29.48	11/30/2018	—	—
	2/27/2013	2,809	6,404(4)	45.27	2/27/2023	—	—
	2/27/2013	—	—	—	—	1,071(7)	49,662
	2/27/2013	40,200(8)	—	45.27	2/27/2020	—	—
	2/21/2014	3,987	3,986(4)	96.92	2/21/2024	—	—
	2/21/2014	—	—	—	—	1,934(7)	89,680
	2/26/2015	2,649	7,945(4)	89.86	2/26/2025	—	—
	2/26/2015	—	—	—	—	3,129(7)	145,092
	2/22/2016	—	51,398(4)	63.11	2/22/2026	—	—
	2/22/2016	—	—	—	—	19,806(7)	918,404
Barrie Seidenberg	8/8/2014	307	307(9)	21.55	5/9/2023	—	—
	8/8/2014	5,608	5,607(10)	95.29	8/8/2024	—	—
	8/8/2014	—	—	—	—	2,646(11)	122,695
	8/8/2014	—	—	—	—	5,293(11)	245,436
	2/26/2015	5,297	15,891(4)	89.86	2/26/2025	—	—
	2/26/2015	—	—	—	—	6,259(7)	290,230
	2/22/2016	—	51,398(4)	63.11	2/22/2026	—	—
	2/22/2016	—	—	—	—	19,806(7)	918,404

(1) Generally, represents the date on which the original award was approved by the appropriate compensation committee, as applicable. All awards with a grant date prior to December 20, 2011, were awarded by Expedia and were converted into equity awards for TripAdvisor common stock upon effectiveness of the Spin-Off. Certain awards granted to Ms. Seidenberg were awarded by Viator pursuant to the Viator 2010 Stock Incentive Plan which was assumed by TripAdvisor.

(2) Options vest in four equal annual installments commencing on the first anniversary of the grant date.

- (3) Options vest in two equal installments on each of August 28, 2017 and August 28, 2018.
- (4) Options vest in four equal installments commencing on February 15th in each of the first four years following the date of grant.
- (5) The RSUs vest on November 9, 2017.
- (6) Options vest in two equal installments on each of November 9, 2018 and November 9, 2019.
- (7) RSUs vest in four equal installments commencing on February 15th in each of the four years following the date of grant.
- (8) All of the options became exercisable on February 1, 2016.
- (9) Options vest in two equal installments on each of January 25, 2017 and February 25, 2017.
- (10) Options vest in two equal annual installments on each of August 8, 2017 and August 8, 2018.
- (11) RSUs vest in two equal installments on each of August 8, 2017 and August 8, 2018.

Option Exercises and Stock Vested

The following table sets forth all stock option awards exercised and the taxable income realized upon exercise and all other stock awards vested and the taxable income realized upon vesting by the named executive officers during 2016.

Name	Exercise or Vest Date	Option Awards		Stock Awards	
		Number of Shares Acquired on Exercise (1)	Value Realized on Exercise (\$)(2)	Number of Shares Acquired on Vesting (3)	Value Realized on Vesting (\$)(4)
Stephen Kaufer	2/24/2016	72,124	3,808,147	—	—
	2/24/2016	28,314	1,441,749	—	—
Ernst Teunissen	11/9/2016	—	—	12,058	760,860
Seth Kalvert	2/15/2016	—	—	3,218	196,523
	9/20/2016	4,129	150,296	—	—
Dermot Halpin	2/12/2016	—	—	3,083	188,279
	3/3/2016	10,000	200,228	—	—
	3/7/2016	10,000	208,076	—	—
	5/11/2016	5,000	183,720	—	—
	6/6/2016	12,000	481,920	—	—
	8/9/2016	20,000	315,286	—	—
Barrie Seidenberg	8/24/2016	10,000	165,045	—	—
	2/15/2016	—	—	2,087	127,453
	8/8/2016	—	—	3,970	241,416
	9/22/2016	3,834	150,254	—	—
	9/22/2016	286	14,208	—	—
	9/26/2016	154	6,175	—	—
	10/25/2016	153	6,452	—	—

- (1) The amounts reported in this column represent the gross number of shares acquired upon exercise of vested options without taking into account any shares that may be withheld to cover option exercise price or applicable tax obligations.
- (2) The amounts reported in this column represent the taxable income of the shares acquired upon exercise of vested stock options calculated by multiplying (i) the number of shares of TripAdvisor's common stock to which the exercise of the option is related by (ii) the difference between the market price of TripAdvisor's common stock at exercise and the exercise price of the options.
- (3) The amounts reported in this column represent the gross number of shares acquired upon the vesting of RSUs without taking into account any shares that may have been withheld to satisfy applicable tax obligations.
- (4) The amounts reported in this column represent the taxable income of the shares acquired upon the vesting of RSUs calculated by multiplying the gross number of vested shares subject to the RSUs by the closing price of TripAdvisor common stock on the NASDAQ Stock Market on the vesting date or if the vesting occurred on a day on which the NASDAQ Stock Market was closed for trading, the next trading day.

Non-Qualified Deferred Compensation

We do not currently have any other defined contribution or other plan that provides for deferred compensation on a basis that is not tax-qualified for our employees.

Potential Payments Upon Termination or Change in Control

Certain of our compensation plans, award agreements and employment agreements or offer letters provide our named executive officers with accelerated vesting of outstanding and unvested equity awards or severance payments in the event of a change in control of TripAdvisor and/or upon the termination of employment or material adverse modification of his or her employment with TripAdvisor under specified circumstances. These plans and agreements are described below as they apply to each named executive officer.

Change of Control Provisions in TripAdvisor's 2011 Plan

The 2011 Plan provides that, unless otherwise specified in the applicable award agreement, upon a participant's termination of employment by the Company during the two-year period following a change in control other than for "cause" or "disability," each as defined in the 2011 Plan, or by the participant for "good reason," as defined in the 2011 Plan, during such period, stock options and stock appreciation rights held by such participant will automatically become fully exercisable and will remain exercisable until the later of (i) the last day on which such option or stock appreciation right is exercisable as specified in the applicable award agreement or (ii) the earlier of the first anniversary of the change in control and the expiration of the term of the option or stock appreciation right, and the restrictions and conditions on all other awards will automatically be deemed waived.

The Board determined it was in the best interest of the Company to allow for an acceleration of equity awards upon a Termination of Employment by reason of death of the participant. This change was included in the 2011 Plan approved by our stockholders in June 2016.

Stephen Kaufer Employment Agreement

In March 2014, the Company entered into an employment agreement with Mr. Kaufer. Previously, the Company did not have an employment agreement with Mr. Kaufer. The agreement has a term of five years.

Pursuant to the employment agreement, in the event that Mr. Kaufer's employment terminates by reason of his death or disability, then:

- TripAdvisor will pay Mr. Kaufer (or his estate) his base salary through the end of the month in which the termination occurs;
- any outstanding unvested equity awards that vest less frequently than annually shall be treated as though such awards vested annually; and
- any unvested stock options held by Mr. Kaufer at the time of termination shall remain exercisable through the earlier of 18 months following termination or the scheduled expiration of the option.

Pursuant to the employment agreement, in the event that Mr. Kaufer terminates his employment for Good Reason (as defined below) or is terminated by TripAdvisor without Cause (as defined below) and such termination occurs during the period commencing three months immediately prior to a Change in Control (as defined below) and ending 24 months immediately following the Change in Control, then:

- TripAdvisor will pay him cash severance in an amount equal to 24 months of his base salary;

- TripAdvisor will pay him in cash an amount equal to the premiums charged by TripAdvisor to maintain COBRA health insurance coverage for him and his eligible dependents for each month between the date of termination and 18 months thereafter;
- TripAdvisor will pay to him a lump sum in cash equal to his annual target bonus, without pro-ration or adjustment;
- all equity awards held by him that are outstanding and unvested shall immediately vest in full; and
- Mr. Kaufer will have 18 months following such date of termination of employment to exercise any vested stock options (including stock options accelerated pursuant to the terms of his employment agreement) or, if earlier, through the scheduled expiration date of the options.

Pursuant to the employment agreement, in the event that Mr. Kaufer terminates his employment for Good Reason or is terminated by TripAdvisor without Cause and such termination is not in connection with a Change in Control, then:

- TripAdvisor will continue to pay Mr. Kaufer's base salary through 12 months following the date of termination;
- TripAdvisor will consider in good faith the payment of an annual bonus on a pro rata basis and based on actual performance for the year in which termination of employment occurs, any such payment to be paid based on actual performance during the year of termination;
- TripAdvisor will pay COBRA health insurance coverage for Mr. Kaufer and his eligible dependents for 12 months following termination;
- all equity awards held by Mr. Kaufer that otherwise would have vested during the 12-month period following termination of employment, will accelerate and become fully vested and exercisable (provided that awards that vest less frequently than annually will be treated as though such awards vested annually);
- any equity awards that do not vest in connection with a termination of employment shall remain outstanding for three months following termination, provided that there will be no additional vesting with respect to such awards unless a Change in Control occurs within such three-month period; and
- Mr. Kaufer will have 18 months following such date of termination to exercise any vested stock options (including stock options accelerated pursuant to the terms of his employment agreement) or, if earlier, through the scheduled expiration date of the options.

Receipt of the severance payments and benefits set forth above is contingent upon Mr. Kaufer executing and not revoking a separation and release in favor of TripAdvisor. Each of the payments set forth above shall be offset by the amount of any cash compensation earned by Mr. Kaufer from another employer during the 12 months following his termination of employment.

With respect to Mr. Kaufer's equity awards granted in August 2013 and thereafter, either Mr. Kaufer agreed to waive the single trigger acceleration right upon a change in control or the award was issued pursuant to the amended and restated 2011 Plan which did not include this benefit. As a result, Mr. Kaufer's awards will only accelerate upon a "double trigger."

Mr. Kaufer has also agreed to be restricted from competing with TripAdvisor or any of its subsidiaries or affiliates or soliciting their employees, consultants, independent contractors, customers, suppliers or business partners, among others, during the term of his employment and through the period ending 18 months after the termination of employment.

Seth J. Kalvert Employment Agreement

Effective May 19, 2016, the Company entered into an employment agreement with Mr. Kalvert, with a two-year term.

Pursuant to the employment agreement with Mr. Kalvert, in the event that his employment terminates by reason of his death or disability, he will be entitled to continued payment of base salary through the end of the month in which the termination occurs. In the event that he terminates his employment for Good Reason (as defined below) or is terminated by TripAdvisor without Cause (as defined below), then:

- TripAdvisor will continue to pay his base salary through the longer of the end of the term of the executive's employment agreement and 12 months following termination (provided that such payments will be offset by any amount earned from another employer during such time period);
- TripAdvisor will consider in good faith the payment of bonuses on a pro rata basis based on actual performance for the year in which termination of employment occurs;
- TripAdvisor will pay COBRA health insurance coverage for Mr. Kalvert and his eligible dependents through the longer of the end of the term of his employment agreement and 12 months following termination;
- All equity awards held by Mr. Kalvert that otherwise would have vested during the 12-month period following termination of employment, will accelerate and become fully vested and exercisable (provided that equity awards that vest less frequently than annually shall be treated as though such awards vested annually); and
- Mr. Kalvert will have 18 months following such date of termination or employment to exercise any vested stock options (including stock options accelerated pursuant to the terms of his employment agreement) or, if earlier, through the scheduled expiration date of the options.

Receipt of the severance payments and benefits set forth above is contingent upon Mr. Kalvert executing and not revoking a separation and release in favor of TripAdvisor. In addition, Mr. Kalvert agreed to be restricted from competing with TripAdvisor or any of its subsidiaries or affiliates or soliciting their employees, consultants, independent contractors, customers, suppliers or business partners, among others, through the longer of (i) the completion of the term of the employment agreement and (ii) 12 months after the termination of employment.

Ernst Teunissen Employment Agreement

On October 6, 2015, the Company entered into an agreement with Mr. Teunissen, effective November 9, 2015. Such employment agreement commenced on November 9, 2015 and expires on March 31, 2018, unless sooner terminated in accordance with its terms.

Pursuant to the employment agreement with Mr. Teunissen, in the event that his employment terminates by reason of his death or disability, he will be entitled to continued payment of base salary through the end of the month in which the termination occurs. In the event that he terminates his employment for Good Reason (as defined below) or is terminated by TripAdvisor without Cause (as defined below), then:

- TripAdvisor will continue to pay his base salary through the longer of the end of the term of the executive's employment agreement and 12 months following termination (provided that such payments will be offset by any amount earned from another employer during such time period);
- TripAdvisor will consider in good faith the payment of bonuses on a pro rata basis based on actual performance for the year in which termination of employment occurs;

- TripAdvisor will pay COBRA health insurance coverage for Mr. Teunissen and his eligible dependents through the longer of the end of the term of his employment agreement and 12 months following termination;
- All equity awards held by Mr. Teunissen that otherwise would have vested during the 12-month period following termination of employment, will accelerate and become fully vested and exercisable (provided that equity awards that vest less frequently than annually shall be treated as though such awards vested annually); and
- Mr. Teunissen will have 18 months following such date of termination or employment to exercise any vested stock options (including stock options accelerated pursuant to the terms of his employment agreement) or, if earlier, through the scheduled expiration date of the options.

Receipt of the severance payments and benefits set forth above is contingent upon Mr. Teunissen executing and not revoking a separation and release in favor of TripAdvisor. In addition, Mr. Teunissen agreed to be restricted from competing with TripAdvisor or any of its subsidiaries or affiliates or soliciting their employees, consultants, independent contractors, customers, suppliers or business partners, among others, through the longer of (i) the completion of the term of the employment agreement and (ii) 12 months after the termination of employment.

Dermot M. Halpin Offer Letter

On February 15, 2016, the Company entered into an offer letter with Dermot Halpin effective October 1, 2015. Pursuant to the offer letter, in the event that Mr. Halpin terminates his employment for Good Reason (as defined below) or is terminated by TripAdvisor without Cause (as defined below), then:

- TripAdvisor will continue to pay Mr. Halpin his base salary for a period of six months following termination;
- TripAdvisor will pay COBRA health insurance coverage for Mr. Halpin and his eligible dependents for a period of six months following termination; and
- TripAdvisor will consider, in good faith, the acceleration of vesting of the equity awards held by Mr. Halpin as of the termination date that otherwise would have vested during the six-month period following termination of employment (provided that equity awards that vest less frequently than annually shall be treated as though such awards vested annually).

Mr. Halpin previously entered into a Non-Disclosure, Developments and Non-Competition Agreement, pursuant to which Mr. Halpin agreed to be restricted from competing with TripAdvisor or any of its subsidiaries or affiliates or soliciting their employees, consultants, independent contractors, customers, suppliers or business partners, among others, through the longer of (i) the completion of the term of the employment agreement and (ii) nine months after the termination of employment.

Barrie Seidenberg Offer Letter

The Company entered into an offer letter, effective August 8, 2014, with Ms. Seidenberg on substantially the same terms as those described above for Mr. Halpin. In November 2016, Ms. Seidenberg informed the Company of her intention to transition from her position as Chief Executive Officer of Attractions in order to pursue other opportunities. In order to provide for the transition of Ms. Seidenberg's responsibilities, TripAdvisor and Ms. Seidenberg entered into a Transition Services Agreement, dated November 17, 2016 (the "Transition Agreement"), pursuant to which Ms. Seidenberg agreed to remain with the Company on a full-time basis for a transition period (the "Transition Period").

Under the Transition Agreement and subject to the terms and conditions therein, in exchange for Ms. Seidenberg's continued service during the Transition Period, the Company and Ms. Seidenberg agreed to the following:

- Ms. Seidenberg will continue to receive her base salary during the transition period.
- If Ms. Seidenberg resigns from the Company or is terminated by the Company without Cause, in either case, after April 30, 2017, then Ms. Seidenberg will receive (i) an amount equal to nine months of her then current base salary, less applicable withholding taxes or other similar governmental payments or charges, (ii) an amount in cash equal to COBRA health insurance coverage for her and her eligible dependents for a period of nine months following termination.
- If Ms. Seidenberg is terminated by the Company without Cause prior to April 30, 2017, then Ms. Seidenberg will receive (i) an amount equal to her then current base salary from the separation date through January 31, 2018, less applicable withholding taxes or other similar governmental payments or charges, (ii) an amount in cash equal to COBRA health insurance coverage for her and her eligible dependents for the period from the separation date through January 31, 2018.
- Any equity awards issued to Ms. Seidenberg that are outstanding and unvested as of the separation date which would, but for a termination of employment, have vested on or before December 31, 2017 will accelerate and become fully vested and exercisable.
- Any vested options to purchase TripAdvisor shares shall remain exercisable through the date that is 18 months following her separation date or, if earlier, through the scheduled expiration date of such options.
- Upon separation, the Company shall consider in good faith the payment of an annual bonus on a pro rata basis for 2017.

The offer letter between Ms. Seidenberg and the Company was superceded and replaced by the Transition Agreement, except to the extent that certain provisions and obligations of the offer letter were expressly preserved and incorporated by reference to the Transition Agreement.

Definitions

Under the employment agreements and offer letters, "Cause" means: (i) the plea of guilty or nolo contendere to, or conviction for, a felony offense by the executive; provided, however, that after indictment, TripAdvisor may suspend the executive from rendition of services but without limiting or modifying in any other way TripAdvisor's obligations under the applicable employment agreement, (ii) a material breach by the executive of a fiduciary duty owed to TripAdvisor or its subsidiaries, (iii) material breach by the executive of certain covenants of the applicable employment agreement, (iv) the willful or gross neglect by the executive of the material duties required by the applicable employment agreement or (v) a knowing and material violation by the executive of any TripAdvisor policy pertaining to ethics, legal compliance, wrongdoing or conflicts of interest that, in the cases of the conduct described in clauses (iv) and (v) above, if curable, is not cured by the executive within 30 days after the executive is provided with written notice thereof.

Under the employment agreements and offer letters as well as under the 2011 Plan, “Change in Control” shall mean any of the following events:

(i) The acquisition by any individual entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than Liberty TripAdvisor Holdings, Inc. and its affiliates (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of equity securities of the Company representing more than 50% of the voting power of the then outstanding equity securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (A) any acquisition by the Company, (B) any acquisition directly from the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii); or

(ii) Individuals who, as of the Effective Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date, whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the purchase of assets or stock of another entity (a “Business Combination”), in each case, unless immediately following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination will beneficially own, directly or indirectly, more than 50% of the then outstanding combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or equivalent governing body, if applicable) of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, (B) no Person (excluding Liberty TripAdvisor Holdings, Inc. and its respective affiliates, any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination) will beneficially own, directly or indirectly, more than a majority of the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership of the Company existed prior to the Business Combination and (C) at least a majority of the members of the board of directors (or equivalent governing body, if applicable) of the entity resulting from such Business Combination will have been members of the Incumbent Board at the time of the initial agreement, or action of the Board, providing for such Business Combination; or

(iv) Approval by our stockholders of a complete liquidation or dissolution of the Company.

Under the employment agreements and offer letters, “Good Reason” means the occurrence of any of the following without the executive’s prior written consent: (A) TripAdvisor’s material breach of any material provision of the applicable employment agreement, (B) the material reduction in the executive’s title, duties, reporting responsibilities or level of responsibilities in such executive’s position at TripAdvisor, (C) the material reduction in the executive’s base salary or the executive’s total annual compensation opportunity, or (D) the relocation of the executive’s principal place of employment more than 20 miles outside of their location of employment; provided that in no event shall the executive’s resignation be for “Good Reason” unless (x) an event or circumstance set forth in clauses (A) through (D) shall have occurred and the executive provides TripAdvisor with written notice thereof within 30 days after the executive has knowledge of the occurrence or existence of such event or circumstance, which notice specifically identifies the event or circumstance that the executive believes constitutes Good Reason, (y) TripAdvisor fails to correct the event or circumstance so identified within 30 days after receipt of such notice, and (z) the executive resigns within 90 days after the date of delivery of the notice referred to in clause (x) above.

For a description and quantification of change in control payments and benefits for our named executive officers, please see the section below entitled “Potential Payments Upon Termination of Change in Control.”

Estimated Potential Incremental Payments

The table below reflects the estimated amount of incremental compensation payable to each of our named executive officers upon termination of his or her employment in the following circumstances: (i) a termination of employment by TripAdvisor without Cause not in connection with a Change in Control, (ii) resignation by him or her for Good Reason not in connection with a Change in Control, (iii) a Change in Control or (iv) a termination of employment by TripAdvisor without Cause or by him or her for Good Reason in connection with a Change in Control.

The amounts shown in the table assume that the triggering event was effective as of December 31, 2016 and that the price of TripAdvisor common stock on which certain of the calculations are based was the closing price of \$46.37 per share on the NASDAQ Stock Market on December 30, 2016, the last trading day in 2016. These amounts are estimates of the incremental amounts that would be paid out to each named executive officer upon such triggering event. The actual amounts to be paid out can only be determined at the time of the triggering event, if any.

Name and Benefit	Termination Without Cause (\$)	Resignation for Good Reason (\$)	Change in Control (\$)	Termination w/o Cause or for Good Reason in connection with Change in Control (\$)
Stephen Kaufer				
Salary	700,000	700,000	—	1,400,000
Bonus (1)	700,000	700,000	—	700,000
Equity Awards (vesting accelerated)	—	—	—	—
Health & Benefits (2)	22,437	22,437	—	33,660
Total estimated value	<u>1,422,437</u>	<u>1,422,437</u>	<u>—</u>	<u>2,133,660</u>
Ernst Teunissen				
Salary	531,250	531,250	—	531,250
Bonus (1)	318,750	318,750	—	318,750
Equity Awards (vesting accelerated)	742,847	742,847	—	1,293,862
Health & Benefits (2)	25,800	25,800	—	25,800
Total estimated value	<u>1,618,647</u>	<u>1,618,647</u>	<u>—</u>	<u>2,169,662</u>
Seth J. Kalvert				
Salary	584,375	584,375	—	584,375
Bonus (1)	284,750	284,750	—	284,750
Equity Awards (vesting accelerated)	315,870	315,870	10,523	1,036,552
Health & Benefits (2)	30,855	30,855	—	30,855
Total estimated value	<u>1,215,850</u>	<u>1,215,850</u>	<u>10,523</u>	<u>1,936,532</u>
Dermot M. Halpin				
Salary	200,000	200,000	—	200,000
Bonus (1)	—	—	—	—
Equity Awards (vesting accelerated)	379,535	379,535	—	1,209,882
Health & Benefits (2)	11,220	11,220	—	11,220
Total estimated value	<u>590,755</u>	<u>590,755</u>	<u>—</u>	<u>1,421,102</u>
Barrie Seidenberg (3)				
Salary	433,333	—	—	433,333
Bonus (1)	150,000	150,000	—	150,000
Equity Awards (vesting accelerated)	518,107	—	—	1,584,385
Health & Benefits (2)	24,791	—	—	24,791
Total estimated value	<u>1,126,231</u>	<u>150,000</u>	<u>—</u>	<u>2,192,509</u>

- (1) Represents target bonus for 2016, the payment of which the Company must consider in good faith, in both cases pursuant to the terms of the employment agreement.
- (2) Assumes extension of benefits or payment of the cost of benefits for a period of time following termination, pursuant to the terms of the officer's employment agreement.
- (3) Amounts in column entitled "Termination w/o Cause or for Good Reason in connection with Change in Control (\$)" assume a Change in Control and termination without Cause. Amounts payable in connection with a Change in Control and resignation for Good Reason would be Salary - \$0, Bonus - \$150,000, Equity Awards \$1,584,385 and Health & Benefits - \$0.

Equity Compensation Plan Information

The following table provides information as of December 31, 2016 regarding shares of common stock that may be issued under TripAdvisor's equity compensation plans consisting of the 2011 Plan, the Viator Inc. 2010 Stock Incentive Plan, and the Non-Employee Director Deferred Compensation Plan.

Plan category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	8,674,801 (1)\$	57.60 (2)	15,051,221
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	8,674,801	—	15,051,221

- (1) Includes (i) 5,817,401 shares of common stock issuable upon the exercise of outstanding options, of which 21,549 shares were granted pursuant to options under the Viator, Inc. 2010 Stock Incentive Plan, (ii) 2,855,738 shares of common stock issuable upon the vesting of RSUs, and (iii) 1,662 shares reserved for issuance of common stock issuable upon exercise of options granted pursuant to the Non-Employee Director Deferred Compensation Plan.
- (2) Since RSUs do not have any exercise price, such units are not included in the weighted average exercise price calculation.

DIRECTOR COMPENSATION

Overview

The Board of Directors sets non-employee director compensation, which is designed to provide competitive compensation necessary to attract and retain high quality non-employee directors and to encourage ownership of TripAdvisor common stock to further align their interests with those of our stockholders. Each non-employee director of TripAdvisor is eligible to receive the following compensation:

- an annual cash retainer of \$50,000, paid in equal quarterly installments;
- an RSU award with a value of \$250,000 (based on the closing price of TripAdvisor's common stock on the NASDAQ Stock Market on the date of grant), upon such director's election to office, subject to vesting in full on the first anniversary of the grant date and, in the event of a Change in Control (as defined in the 2011 Plan), full acceleration of vesting;
- an annual cash retainer of \$20,000 for each member of the Audit Committee (including the Chairman) and \$15,000 for each member of the Compensation Committees (including the Chairperson); and
- an additional annual cash retainer of \$10,000 for each of the Chairman of the Audit Committee and the Chairperson of the Compensation Committees.

We also pay reasonable travel and accommodation expenses of the non-employee directors in connection with their participation in meetings of the Board of Directors.

TripAdvisor employees do not receive compensation for services as directors. Accordingly, Mr. Kaufer does not receive any compensation for his service as a director.

Non-Employee Director Deferred Compensation Plan

Under TripAdvisor's Non-Employee Director Deferred Compensation Plan, the non-employee directors may defer all or a portion of their directors' fees. Eligible directors who defer their directors' fees may elect to have such deferred fees (i) applied to the purchase of share units representing the number of shares of TripAdvisor common stock that could have been purchased on the date such fees would otherwise be payable or (ii) credited to a cash fund. If any dividends are paid on TripAdvisor common stock, dividend equivalents will be credited on the share units. The cash fund will be credited with deemed interest at an annual rate equal to the average "bank prime loan" rate for such year identified in the U.S. Federal Reserve Statistical Release. Upon termination of service as a director of TripAdvisor, a director will receive (1) with respect to share units, such number of shares of TripAdvisor common stock as the share units represent and (2) with respect to the cash fund, a cash payment. Payments upon termination will be made in either one lump sum or up to five installments, as elected by the eligible director at the time of the deferral election.

2016 Non-Employee Director Compensation Table

The following table shows the compensation information for the non-employee directors of TripAdvisor for the year ended December 31, 2016:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Stock Awards</u>	<u>Total</u>
	<u>(\$)(1)</u>	<u>(\$)(2)(3)</u>	<u>(\$)</u>
Gregory B. Maffei	65,000	249,998	314,998
Dipchand (Deep) Nishar (4)	61,250	249,998	311,248
Jeremy Philips (4)	68,750	249,998	318,748
Spencer M. Rascoff	70,000	249,998	319,998
Albert Rosenthaler (5)	44,368	399,956	444,324
Sukhinder Singh Cassidy	75,000	249,998	324,998
Robert S. Wiesenthal	80,000	249,998	329,998

- (1) The amounts reported in this column represent the annual cash retainer amounts for services in 2016, including fees with respect to which directors elected to defer and credit towards the purchase of share units representing shares of the Company common stock pursuant to the Company's Non-Employee Director Deferred Compensation Plan.
- (2) The amounts reported in this column represent the aggregate grant date fair value of RSU awards computed in accordance with GAAP. These amounts reflect an estimate of the grant date fair value and may not correspond to the actual value that will be recognized by the non-employee directors from their awards.
- (3) As of December 31, 2016, Messrs. Maffei, Philips, Wiesenthal, Nishar, Rascoff, and Ms. Singh Cassidy each held 4,481 unvested RSUs. As of December 31, 2016, Mr. Rosenthaler held 6,178 unvested RSU's.
- (4) Effective June 23, 2016, Mr. Nishar was appointed to serve on the Compensation Committee and Mr. Philips was re-assigned from the Compensation Committee to the Audit Committee.
- (5) Mr. Rosenthaler was appointed to the Board of Directors on February 3, 2016.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Beneficial Ownership Table

The following table presents information as of April 24, 2017, relating to the beneficial ownership of TripAdvisor's capital stock by (i) each person or entity known to TripAdvisor to own beneficially more than 5% of the outstanding shares of TripAdvisor's common stock or Class B common stock, (ii) each director and director nominee of TripAdvisor, (iii) the named executive officers and (iv) our executive officers and directors, as a group. In each case, except as otherwise indicated in the footnotes to the table, the shares are owned directly by the named owners, with sole voting and dispositive power. Unless otherwise indicated, beneficial owners listed in the table may be contacted at TripAdvisor's corporate headquarters at 400 1st Avenue, Needham, Massachusetts, 02494.

Shares of TripAdvisor Class B common stock may, at the option of the holder, be converted on a one-for-one basis into shares of TripAdvisor common stock; therefore, the common stock column below includes shares of Class B common stock held by each such listed person, entity or group, and the beneficial ownership percentage of each such listed person assumes the conversion of all Class B common stock into common stock. For each listed person, entity or group, the number of shares of TripAdvisor common stock and Class B common stock and the percentage of each such class listed also include shares of common stock and Class B common stock that may be acquired by such person, entity or group on the conversion or exercise of equity securities, such as stock options, which can be converted or exercised, and RSUs that have or will have vested, within 60 days of April 24, 2017, but do not assume the conversion or exercise of any equity securities (other than the conversion of the Class B common stock) owned by any other person, entity or group.

The percentage of votes for all classes of TripAdvisor's capital stock is based on one vote for each share of common stock and ten votes for each share of Class B common stock. There were 128,411,141 shares of common stock and 12,799,999 shares of Class B common stock outstanding on April 24, 2017.

Beneficial Owner	Common Stock		Class B Common Stock		Percent (%) of Votes (All Classes)
	Shares	%	Shares	%	
5% Beneficial Owners					
Liberty TripAdvisor Holdings, Inc. 12300 Liberty Boulevard Englewood, CO 80112	30,959,751 (1)	21.9	12,799,999 (1)	100	57.0
Baillie Gifford & Co Calton Square 1 Greenside Row Edinburgh EH1 3AN Scotland, UK	12,417,263 (2)	8.8	0	0	4.8
The Vanguard Group 100 Vanguard Blvd Malvern, PA 19355	10,442,791 (3)	7.4	0	0	4.1
Jackson Square Partners, LLC 101 California Street, Suite 3750, San Francisco, CA 94111	8,225,449 (4)	5.8	0	0	3.2
BlackRock, Inc. 55 East 52nd Street New York, NY 10022	8,177,397 (5)	5.8	0	0	3.2
Brown Advisory LLC 901 South Bond Street, Baltimore, MD 21231	7,073,249 (6)	5.0	0	0	2.8
Named Executive Officers and Directors					
Gregory B. Maffei	12,332 (7)	*	0	0	*
Stephen Kaufer	1,012,317 (8)	*	0	0	*
Dipchand (Deep) Nishar	9,025	*	0	0	*
Jeremy Philips	16,037	*	0	0	*
Spencer M. Rascoff	9,025	*	0	0	*
Albert Rosenthaler	6,178	*	0	0	*
Sukhinder Singh Cassidy	12,037	*	0	0	*
Robert S. Wiesenthal	16,037	*	0	0	*
Ernst Teunissen	10,770	*	0	0	*
Seth J. Kalvert	181,682 (9)	*	0	0	*
Dermot M. Halpin	86,400 (10)	*	0	0	*
Barrie Seidenberg	29,052 (11)	*	0	0	*
All executive officers, directors and director nominees as a group (13 persons)	1,400,892 (12)	*	0	0	*

* The percentage of shares beneficially owned does not exceed 1% of the class.

- (1) Based on information contained in a Schedule 13D/A filed with the SEC on July 1, 2016, by LTRIP. Consists of 18,159,752 shares of common stock and 12,799,999 shares of Class B Common Stock owned by LTRIP. Excludes shares beneficially owned by the executive officers and directors of LTRIP, as to which LTRIP disclaims beneficial ownership.
- (2) Based solely on information contained in a Schedule 13G/A filed with the SEC on February 10, 2017, by Baillie Gifford & Co. ("BG&C"). According to the Schedule 13G/A, BG&C beneficially owns and has sole dispositive power with respect to 12,417,263 shares of common stock but only has sole voting power with respect to 8,311,500 shares.
- (3) Based solely on information contained in a Schedule 13G/A filed with the SEC on February 13, 2017, by The Vanguard Group ("Vanguard"). According to the Schedule 13G/A, Vanguard beneficially owns 10,442,791 shares of common stock and has sole voting power with respect to 178,752 shares, shared voting power with respect to 20,111 shares, sole dispositive power with respect to 10,239,718 shares and shared dispositive power with respect to 203,073 shares.
- (4) Based solely on information contained in a Schedule 13G filed with the SEC on February 16, 2016, by Jackson Square Partners, LLC ("Jackson"). According to the Schedule 13G, Jackson beneficially owns and has sole dispositive power with respect to 8,225,449 shares of common stock but only has sole voting power with respect to 2,824,824 shares.
- (5) Based solely on information contained in a Schedule 13G/A filed with the SEC on January 27, 2017, by BlackRock, Inc. According to the Schedule 13G, BlackRock beneficially owns and has sole dispositive power with respect to 8,177,397 shares of common stock but only has sole voting power with respect to 7,052,909 shares.
- (6) Based solely on information contained in a Schedule 13G/A filed with the SEC on March 10, 2017, by Brown Advisory Incorporated ("BA"). According to the Schedule 13G/A, BA beneficially owns 7,073,249 shares of common stock and has sole voting power with respect to 5,755,193 shares, shared voting power with respect to 6,627 shares and shared dispositive power with respect to all of the shares.

- (7) Includes 1,938 shares of common stock that are held by the Maffei Foundation. Mr. Maffei and his wife, as the two directors of the Maffei Foundation, have shared voting and investment power with respect to any shares held by the Maffei Foundation.
- (8) Includes options to purchase 571,933 shares of common stock that are currently exercisable or will be exercisable within 60 days of April 24, 2017.
- (9) Includes options to purchase 170,762 shares of common stock that are currently exercisable or will be exercisable within 60 days of April 24, 2017.
- (10) Includes options to purchase 80,136 shares of common stock that are currently exercisable or will be exercisable within 60 days of April 24, 2017.
- (11) Represents options to purchase 29,052 shares of common stock that are currently exercisable or will be exercisable within 60 days of April 24, 2017.
- (12) Includes options to purchase 851,883 shares of common stock that are currently exercisable or will be exercisable within 60 days of April 24, 2017.

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Exchange Act, TripAdvisor officers and directors and persons who beneficially own more than 10% of a registered class of TripAdvisor's equity securities are required to file initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) with the SEC. Such persons are required by the rules of the SEC to furnish TripAdvisor with copies of all such forms they file. Based solely on a review of the copies of such forms furnished to TripAdvisor and/or written representations that no additional forms were required, TripAdvisor believes that all of its directors and officers complied with all the reporting requirements applicable to them with respect to transactions during 2016.

Changes in Control

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of our company.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

Review and Approval or Ratification of Related Person Transactions

In general, we will enter into or ratify a “related person transaction” only when it has been approved by the Audit Committee of the Board of Directors, in accordance with its written charter. Related persons include our executive officers, directors, 5% or more beneficial owners of our common stock, immediate family members of these persons and entities in which one of these persons has a direct or indirect material interest. Related person transactions are transactions that meet the minimum threshold for disclosure in the proxy statement under the relevant SEC rules (generally, transactions involving amounts exceeding \$120,000 in which a related person or entity has a direct or indirect material interest). When a potential related person transaction is identified, management presents it to the Audit Committee to determine whether to approve or ratify. When determining whether to approve, ratify, disapprove or reject any related person transaction, the Audit Committee considers all relevant factors, including the extent of the related person’s interest in the transaction, whether the terms are commercially reasonable and whether the related person transaction is consistent with the best interests of TripAdvisor and our stockholders.

The legal and accounting departments work with business units throughout TripAdvisor to identify potential related person transactions prior to execution. In addition, we take the following steps with regard to related person transactions:

- On an annual basis, each director, director nominee and executive officer of TripAdvisor completes a Director and Officer Questionnaire that requires disclosure of any transaction, arrangement or relationship with us during the last fiscal year in which the director or executive officer, or any member of his or her immediate family, had a direct or indirect material interest.
- Each director, director nominee and executive officer is expected to promptly notify our legal department of any direct or indirect interest that such person or an immediate family member of such person had, has or may have in a transaction in which we participate.
- TripAdvisor monitors its accounts payable, accounts receivable and other databases to identify any other potential related person transactions that may require disclosure.
- Any reported transaction that our legal department determines may qualify as a related person transaction is referred to the Audit Committee.

If any related person transaction is not approved, the Audit Committee may take such action as it may deem necessary or desirable in the best interests of TripAdvisor and our stockholders.

Related Person Transactions

Relationship between Expedia and TripAdvisor

Upon consummation of the Spin-Off, Expedia was considered a related party under GAAP based on a number of factors, including, among others, common ownership of our shares and those of Expedia. However, we no longer consider Expedia a related party. For purposes of governing certain of the ongoing relationships between us and Expedia at and after the Spin-Off, and to provide for an orderly transition, we and Expedia entered into various agreements at the time of the Spin-Off, under which TripAdvisor has satisfied its obligations. However, TripAdvisor continues to be subject to certain post-spin obligations under the Tax Sharing Agreement between TripAdvisor and Expedia.

Under the Tax Sharing Agreement, we are generally required to indemnify Expedia for any taxes resulting from the Spin-Off (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts resulted from (i) any act or failure to act by us described in the covenants in the Tax Sharing Agreement, (ii) any acquisition of our equity

securities or assets or those of a member of our group, or (iii) any failure of the representations with respect to us or any member of our group to be true or any breach by us or any member of our group of any covenant, in each case, which is contained in the separation documents or in the documents relating to the IRS private letter ruling and/or the opinion of counsel. Refer to “Note 10 – Income Taxes” in the Company’s Annual Report on Form 10-K for information regarding the status of completed and ongoing IRS audits of our consolidated income tax returns with Expedia.

Relationship among Liberty, LTRIP and TripAdvisor

On August 27, 2014, the entire beneficial ownership of our common stock and Class B common stock held by Liberty was transferred to LTRIP. Simultaneously, Liberty, LTRIP’s former parent company, distributed, by means of a dividend, to the holders of its Liberty Ventures common stock, Liberty’s entire equity interest in LTRIP. As a result of the Liberty Spin-Off, effective August 27, 2014, LTRIP became a separate, publicly traded company and 100% of Liberty’s interest in TripAdvisor was held by LTRIP.

As a result of these transactions, as of the record date, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 14.1% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.9% of the outstanding common stock (calculated in accordance with Rule 13d-3). Because each share of Class B common stock is generally entitled to ten votes per share and each share of common stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing approximately 57.0% of our voting power. As a result, LTRIP is effectively able to control the outcome of all matters submitted to a vote or for the consent of TripAdvisor’s stockholders (other than with respect to the election by the holders of TripAdvisor common stock of 25% of the members of TripAdvisor’s Board of Directors and matters as to which Delaware law requires a separate class vote).

WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION BY REFERENCE

TripAdvisor files annual, quarterly and current reports, proxy statements and other information with the SEC. TripAdvisor’s filings are available to the public over the Internet at the SEC’s website at <http://www.sec.gov>. You may also read and copy any document that TripAdvisor files with the SEC at its public reference room in Washington, D.C. located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can also obtain copies of those documents at prescribed rates by writing to the Public Reference Section of the SEC at that address. TripAdvisor’s SEC filings are also available to the public from commercial retrieval services.

The SEC allows TripAdvisor to “incorporate by reference” the information that TripAdvisor’s files with the SEC, which means that TripAdvisor can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this proxy statement. TripAdvisor incorporates by reference its Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 17, 2017.

ANNUAL REPORTS

TripAdvisor’s Annual Report to Stockholders for 2017, which includes our Annual Report on Form 10-K for the year ended December 31, 2016 (not including exhibits), is available at <http://ir.tripadvisor.com/annual-proxy.cfm>. Upon written request to TripAdvisor, Inc., 400 1st Avenue, Needham, Massachusetts 02494, Attention: Secretary, TripAdvisor will provide, without charge, an additional copy of TripAdvisor’s 2016 Annual Report on Form 10-K. TripAdvisor will furnish any exhibit contained in the Annual Report on Form 10-K upon payment of a reasonable fee. Stockholders may also review a copy of the Annual Report on Form 10-K (including exhibits) by accessing TripAdvisor’s corporate website at www.tripadvisor.com or the SEC’s website at www.sec.gov.

**PROPOSALS BY STOCKHOLDERS FOR PRESENTATION AT THE
2018 ANNUAL MEETING**

Stockholders who wish to have a proposal considered for inclusion in TripAdvisor's proxy materials for presentation at the 2018 Annual Meeting of Stockholders must ensure that their proposal is received by TripAdvisor no later than December 29, 2017, at its principal executive offices at 400 1st Avenue, Needham, Massachusetts 02494, Attention: Secretary. The proposal must be made in accordance with the provisions of Rule 14a-8 of the Exchange Act. Stockholders who intend to present a proposal at the 2018 Annual Meeting of Stockholders without inclusion of the proposal in TripAdvisor's proxy materials are required to provide notice of such proposal to TripAdvisor at its principal executive offices no later than March 14, 2018. TripAdvisor reserves the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS

If you share an address with any of our other stockholders, your household might receive only one copy of the Proxy Statement, Annual Report and Notice, as applicable. To request individual copies of any of these materials for each stockholder in your household, please contact TripAdvisor, Inc., 400 1st Avenue, Needham, Massachusetts 02494, Attention: Secretary, or call us at (781) 800-5000. We will deliver copies of the Proxy Statement, Annual Report and/or Notice promptly following your request. To ask that only one copy of any of these materials be mailed to your household, please contact your broker.

Needham, Massachusetts

April 26, 2017

Board of Directors

Gregory B. Maffei
Chairman

Stephen Kaufer
Director, President and Chief
Executive Officer

Dipchand (Deep) Nishar
Director

Jeremy Philips
Director

Spencer M. Rascoff
Director

Albert Rosenthaler
Director

Sukhinder Singh Cassidy
Director

Robert S. Wiesenthal
Director

Executive Officers

Stephen Kaufer
President and
Chief Executive Officer

Ernst Teunissen
Senior Vice President,
Chief Financial Officer and
Treasurer

Dermot Halpin
President,
Vacation Rentals and
Attractions

Seth Kalvert
Senior Vice President,
General Counsel and
Secretary

Barrie Seidenberg
CEO, Attractions

Leadership

Gary Fritz
Chief Growth Officer and
President of Asia Pacific

Beth Grous
Chief People Officer

Robin Ingle
Senior Vice President,
Advertising Sales

Bertrand Jelensperger
CEO, Lafourchette

David Krauter
President,
Smarter Travel & Independent
Travel

Adam Medros
Senior Vice President, Global
Product

Barbara Messing
Chief Marketing Officer

Bryan Saltzburg
Senior Vice President and
General Manager,
Global Flights Business

Nick Shanny
Senior Vice President, Core
Engineering

Noel Watson
Chief Accounting Officer

Corporate and Stockholder Information

Headquarters

TripAdvisor, Inc.
400 1st Ave.
Needham, Massachusetts 02494

Exchange Listing and Ticker Symbol

NASDAQ Global Select Market, "TRIP"

Annual Meeting

June 22, 2017 1:00 p.m. Eastern Time
Residence Inn
80 B Street
Needham, Massachusetts 02494

Publications and Reports

A variety of stockholder publications and reports, including TripAdvisor's Annual Report on Form 10-K, proxy statement, financial news releases and a variety of legal filings are available at <http://ir.tripadvisor.com>. Stockholders can also request a copy of the Annual Report and proxy statement by contacting the Secretary of TripAdvisor, Inc., 400 1st Avenue, Needham, Massachusetts 02494.

Independent Registered Public Accounting Firm

KPMG LLP
Two Financial Center
60 South Street
Boston, Massachusetts 02110

Transfer Agent and Registrar

Computershare
P.O. Box 358015
Pittsburgh, PA 15252

Electronic Delivery

Most stockholders can elect to receive e-mails in the future with links to the Annual Report, proxy statement and voting web site. Registered stockholders can sign up for electronic delivery at www.bnymellon.com/shareowner/equityaccess. Street name stockholders should contact their bank or broker to inquire about electronic delivery.

