

TripAdvisor, Inc.
Form 10-Q
July 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2012

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

80-0743202
(I.R.S. Employer
Identification No.)

141 Needham Street
Newton, MA 02464

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:

(617) 670-6300

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Outstanding Shares at

Class	July 20, 2012
Common Stock, \$0.001 par value per share	129,532,102 shares
Class B common stock, \$0.001 par value per share	12,799,999 shares

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TripAdvisor, Inc.

Form 10-Q

For the Quarter Ended June 30, 2012

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Table of Contents**TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenue	\$ 141,408	\$ 110,043	\$ 273,535	\$ 205,321
Related-party revenue from Expedia	55,740	59,199	107,328	113,143
Total revenue	197,148	169,242	380,863	318,464
Costs and expenses:				
Cost of revenue (exclusive of amortization) (1)	2,926	2,735	5,660	4,966
Selling and marketing(2)	64,243	52,685	131,632	96,880
Technology and content(2)	21,574	13,379	39,415	26,468
General and administrative(2)	18,252	7,944	34,506	16,138
Related-party shared services fee to Expedia		1,980		3,960
Depreciation	4,715	4,514	8,996	8,616
Amortization of intangible assets	1,760	1,132	3,599	3,249
Spin-off costs		1,054		1,054
Total costs and expenses	113,470	85,423	223,808	161,331
Operating income	83,678	83,819	157,055	157,133
Other income (expense):				
Other interest (expense) income, net	(2,405)	217	(5,337)	315
Other, net	(4,539)	457	(3,843)	1,422
Total other (expense) income, net	(6,944)	674	(9,180)	1,737
Income before income taxes	76,734	84,493	147,875	158,870
Provision for income taxes	(23,569)	(30,383)	(46,539)	(57,389)
Net income	53,165	54,110	101,336	101,481
Net income attributable to noncontrolling interests	(146)	(46)	(206)	(139)
Net income attributable to TripAdvisor, Inc.	\$ 53,019	\$ 54,064	\$ 101,130	\$ 101,342
Earnings Per Share attributable to TripAdvisor, Inc.:				
Basic	\$ 0.38	\$ 0.41	\$ 0.74	\$ 0.76
Diluted	0.37	0.41	0.73	0.76
Weighted Average Common Shares Outstanding:				
Basic	139,278	133,461	136,516	133,461
Diluted	141,737	133,461	138,947	133,461
(1) Excludes amortization as follows:				
Amortization of acquired technology included in amortization of intangibles	\$ 182	\$ 163	\$ 364	\$ 325
Amortization of website development costs included in depreciation	2,979	3,029	5,692	5,723
	\$ 3,161	\$ 3,192	\$ 6,056	\$ 6,048
(2) Includes stock-based compensation as follows:				
Selling and marketing	\$ 923	\$ 589	\$ 2,001	\$ 1,394

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Technology and content	2,426	639	3,938	1,527
General and administrative	3,419	740	5,521	1,521

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

Table of Contents**TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)**

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income	\$ 53,165	\$ 54,110	\$ 101,336	\$ 101,481
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,196)	(127)	231	658
Comprehensive income	51,969	53,983	101,567	102,139
Less: Comprehensive income attributable to noncontrolling interests	(146)	(46)	(206)	(139)
Comprehensive income attributable to TripAdvisor, Inc.	\$ 51,823	\$ 53,937	\$ 101,361	\$ 102,000

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

Table of Contents**TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 478,241	\$ 183,532
Accounts receivable, net of allowance of \$3,298 and \$5,370 at June 30, 2012 and December 31, 2011, respectively	96,873	67,936
Receivable from Expedia, net	40,158	14,081
Deferred income taxes, net	6,494	6,494
Prepaid expenses and other current assets	8,655	6,279
Total current assets	630,421	278,322
Long-term assets:		
Property and equipment, net	38,828	34,754
Other long-term assets	10,380	11,888
Intangible assets, net	40,536	44,030
Goodwill	467,088	466,892
Total long-term assets	556,832	557,564
TOTAL ASSETS	\$ 1,187,253	\$ 835,886
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 28,405	\$ 12,097
Deferred revenue	26,970	19,395
Credit facility borrowings	24,361	26,734
Borrowings, current	30,000	20,000
Taxes payable	14,629	17,229
Accrued expenses and other current liabilities	45,479	34,938
Total current liabilities	169,844	130,393
Long-term liabilities:		
Deferred income taxes, net	14,772	16,004
Other long-term liabilities	15,669	15,952
Borrowings, net of current portion	360,000	380,000
Total long-term liabilities	390,441	411,956
Total Liabilities	560,285	542,349
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock \$0.001 par value		
Authorized shares: 100,000,000		
Shares issued and outstanding: 0 and 0		
Common Stock \$0.001 par value	129	121
Authorized shares: 1,600,000,000		
Shares issued and outstanding: 129,511,937 and 120,661,808		

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Class B common stock \$0.001 par value	13	13
Authorized shares 400,000,000		
Shares issued and outstanding: 12,799,999 and 12,799,999		
Additional paid-in capital	525,806	293,744
Retained earnings	103,499	2,369
Accumulated other comprehensive loss	(2,479)	(2,710)
Total stockholders' equity	626,968	293,537
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,187,253	\$ 835,886

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

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TRIPADVISOR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2012

(In thousands, except share data)

	Common Stock		Class B common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2011	120,661,808	\$ 121	12,799,999	\$ 13	\$ 293,744	\$ 2,369	\$ (2,710)	\$ 293,537
Net income attributable to TripAdvisor, Inc.						101,130		101,130
Currency translation adjustments							231	231
Tax benefits on equity awards					2,172			2,172
Issuance of common stock related to exercise of options and warrants and vesting of RSUs	8,850,129	8			225,761			225,769
Minimum withholding tax on vesting of RSUs					(3,035)			(3,035)
Adjustment to the fair value of redeemable noncontrolling interest					(758)			(758)
Reclassification of non-employee equity awards to liability					(1,174)			(1,174)
Stock-based compensation expense					9,153			9,153
Other					(57)			(57)
Balance as of June 30, 2012	129,511,937	\$ 129	12,799,999	\$ 13	\$ 525,806	\$ 103,499	\$ (2,479)	\$ 626,968

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

Table of Contents**TRIPADVISOR, INC.****UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

(in thousands)

	Six Months Ended June 30,	
	2012	2011
Operating activities:		
Net income	\$ 101,336	\$ 101,481
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	8,996	8,616
Stock-based compensation	11,460	4,442
Amortization of intangible assets	3,599	3,249
Amortization of deferred financing costs	475	
Deferred tax benefit	(74)	(174)
Excess tax benefits from stock-based compensation	(2,011)	(1,431)
Provision for doubtful accounts	(1,300)	581
Foreign exchange (gain) loss on cash and cash equivalents, net	2,323	(618)
Other	509	(1,222)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(27,455)	(25,151)
Related parties	(34,356)	
Prepaid expenses and other current assets	(1,879)	(1,525)
Accounts payable	17,812	12,229
Taxes payable	(1,822)	4,544
Accrued expenses and other current liabilities	6,296	1,925
Deferred revenue	7,568	6,925
Net cash provided by operating activities	91,477	113,871
Investing activities:		
Acquisitions, net of cash acquired		(4,893)
Capital expenditures, including internal-use software and website development	(13,249)	(10,424)
Distribution proceeds from Expedia related to Spin-Off	7,028	
Transfers to Expedia, net		(90,125)
Net cash used in investing activities	(6,221)	(105,442)
Financing activities:		
Acquisitions funded by Expedia		5,135
Proceeds from credit facilities	7,627	2,782
Payments on credit facilities	(10,000)	
Principal payments on long-term debt	(10,000)	
Proceeds from exercise of stock options and warrants	225,769	
Payment of minimum withholding taxes on RSU vesting	(3,035)	
Excess tax benefits from stock-based compensation	2,011	1,431
Net cash provided by financing activities	212,372	9,348
Effect of exchange rate changes on cash and cash equivalents	(2,919)	814
Net increase in cash and cash equivalents	294,709	18,591
Cash and cash equivalents at beginning of year	183,532	93,133
Cash and cash equivalents at end of period	\$ 478,241	\$ 111,724

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

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TRIPADVISOR, INC.

UNAUDITED NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND BASIS OF PRESENTATION

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

Description of Business

TripAdvisor is an online travel company, empowering users to plan and have the perfect trip. TripAdvisor's travel research platform aggregates reviews and opinions of members about destinations, accommodations (hotels, bed and breakfasts, specialty lodging and vacation rentals), restaurants and activities throughout the world through our flagship TripAdvisor brand. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 29 other countries, including in China under the brand daodao.com. Beyond travel-related content, TripAdvisor websites also include links to the websites of our travel advertisers allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, we manage and operate websites under 19 other travel brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector. We derive substantially all of our revenue from advertising, primarily through click-based advertising and display-based advertising sales. In addition, we earn revenue through a combination of subscription-based offerings, transaction revenue from our flash sale website, SniqueAway, and from our recently-launched hotel booking site, Tingo, and other revenue including content licensing.

Spin-Off from Expedia

On April 7, 2011, Expedia, Inc. (*Expedia*) announced its plan to separate into two independent public companies in order to better achieve certain strategic objectives of its various businesses. We refer to this transaction as the *Spin-Off*.

On December 20, 2011, following the close of trading on the NASDAQ Global Select Market (*NASDAQ*), the Spin-Off was completed, and TripAdvisor began trading as independent public company on December 21, 2011. Expedia effected the Spin-Off by means of a reclassification of its capital stock that resulted in the holders of Expedia capital stock immediately prior to the time of effectiveness of the reclassification having the right to receive a proportionate amount of TripAdvisor capital stock. A one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, with cash paid in lieu of fractional shares.

In connection with the Spin-Off, Expedia contributed or transferred all of the subsidiaries and assets relating to Expedia's TripAdvisor Media Group, which were comprised of the TripAdvisor Holdings, LLC combined financial statements, to TripAdvisor and TripAdvisor or one of its subsidiaries assumed all of the liabilities relating to Expedia's TripAdvisor Media Group. TripAdvisor now trades on the NASDAQ under the symbol *TRIP*.

On December 20, 2011, TripAdvisor Holdings, LLC, distributed approximately \$406 million in cash to Expedia in the form of a dividend, prior to completion of the Spin-Off. This distribution was funded through borrowings under a new credit agreement, dated as of December 20, 2011, among TripAdvisor, TripAdvisor Holdings, LLC, TripAdvisor LLC, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Europe Limited, as London agent. Such credit agreement together with all exhibits, schedules, annexes, certificates, assignments and related documents contemplated thereby is referred to herein as the *Credit Agreement*. The Credit Agreement provided for a five-year term loan (the *Term Loan*) to TripAdvisor Holdings, LLC in a principal amount of \$400 million, repayable in quarterly installments equal to 1.25% of the original principal amount in year 2012 and 2.5% of the original principal amount in each year thereafter, with the balance payable on the final maturity date. The Credit Agreement also provides for a revolving credit facility (the *Revolving Credit Facility*) with a maximum borrowing capacity of \$200 million. All outstanding principal and interest under the Term Loan and the Revolving Credit Facility will be due and payable, and the Revolving Credit Facility will terminate, on December 20, 2016.

Basis of Presentation

The accompanying unaudited consolidated and combined financial statements have been prepared by us in accordance with generally accepted accounting principles, or GAAP, for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles for complete periods have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments considered necessary for a fair presentation of our financial position, results of operations and cash flows have been included. All such adjustments are of a normal recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated and combined financial statements for the year ended December 31, 2011 filed with the Securities and Exchange Commission (SEC) in our Annual Report on Form 10-K on March 15, 2012. The results for interim periods are not necessarily indicative of the results to be expected for the full year.

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The financial statements and related financial information pertaining to the period preceding the Spin-Off have been presented on a combined basis and reflect the results of TripAdvisor that were ultimately transferred to us as part of the Spin-Off. The financial statements and related financial information pertaining to the period subsequent to the Spin-Off have been presented on a consolidated basis. Prior to the Spin-Off, certain functions, including accounting, legal, tax, corporate development, treasury, employee benefits, financial reporting and real estate management, were historically managed by the corporate division of Expedia on behalf of its subsidiaries. The assets, liabilities and expenses related to the support of these centralized corporate functions have been allocated to us on a specific identification basis to the extent possible. Otherwise, allocations related to these services, in the form of a related-party services fee, were primarily based upon an estimate of the proportion of corporate amounts applicable to us. These allocations were determined on a basis that Expedia and we considered to be a reasonable reflection of the cost of services provided or the benefit received by us. These expenses were allocated based on a number of factors including headcount, estimated time spent and operating expenses. In the opinion of management, the assumptions and allocations have been made on a reasonable basis. Management believes that amounts allocated to TripAdvisor reflect a reasonable representation of the types of costs that would have been incurred if we had performed these functions as a stand-alone company. However, as estimation is inherent within the aforementioned allocation process, these combined financial statements do not include all of the actual amounts that would have been incurred had we been a stand-alone entity during the periods presented and also do not necessarily reflect our future financial position, results of operations and cash flows.

Consolidation

Our consolidated and combined financial statements include the accounts of TripAdvisor, our wholly owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. We record our investments in entities that we do not control, but over which we have the ability to exercise significant influence, using the equity method. We record noncontrolling interest in our consolidated and combined financial statements to recognize the minority ownership interest in our consolidated subsidiaries. Noncontrolling interest in the earnings and losses of consolidated subsidiaries represent the share of net income or loss allocated to members or partners in our consolidated entities. Significant intercompany transactions between the TripAdvisor consolidated entities and accounts have been eliminated.

Certain of our subsidiaries that operate in China, have variable interests in affiliated entities 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 some of our Chinese affiliates, we consolidate their results as we are the primary beneficiary of the cash losses or profits of these variable interest affiliates and have the power to direct the activities of these affiliates. Our variable interest entities are not material for all periods presented.

Accounting Estimates

We use estimates and assumptions in the preparation of our consolidated and combined 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 and combined 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 and combined financial statements include revenue recognition; recoverability of long-lived assets, intangible assets and goodwill; income taxes; useful lives of property and equipment; purchase accounting and stock-based compensation.

Reclassifications

We have reclassified certain amounts related to our prior period results to conform to our current period presentation.

During the fourth quarter of 2011, our management changed our non-GAAP financial measure that we use to measure our operating performance from Operating Income Before Amortization, or OIBA, to Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization, or Adjusted EBITDA. Consequently we have reclassified all of our depreciation expense, which previously had resided in technology and content expense and general and administrative expense, and have presented it as a separate line item on the consolidated and combined statement of operations. This reclassification had no net effect on either total operating expenses or total operating income. The table

below provides a summary of that reclassification for the periods presented.

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	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(In thousands)	
Depreciation	\$ 4,514	\$ 8,616
Technology and content	(3,679)	(6,969)
General and administrative	(835)	(1,647)
	\$	\$

Seasonality

Expenditures by travel advertisers tend to be seasonal. Traditionally, our strongest quarter has been the third quarter, which is a key travel research period, with the weakest quarter being the fourth quarter. However, adverse economic conditions or continued growth of our international operations with differing holiday peaks may influence the typical trend of our seasonality in the future.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**Recently Adopted Accounting Pronouncements**

In September 2011, the FASB issued ASU 2011-08. ASU 2011-08 was issued to amend FASB Accounting Standards Codification (ASC) (Topic 350): Intangibles—Goodwill and Other. The guidance in ASU 2011-08 is intended to reduce complexity and costs by allowing an entity the option to first make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If entities determine, on the basis of qualitative factors, that it is more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, and we adopted ASU 2011-08 on October 1, 2011 for the fiscal year 2011 goodwill impairment test. The adoption of ASU 2011-08 did not have a material impact on our consolidated and combined financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation on Comprehensive Income (ASU 2011-05). Under ASU 2011-05, there will no longer be the option to present items of other comprehensive income in the statement of stockholders' equity. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011 on a retrospective basis, with early adoption permitted. Accordingly, we have adopted the presentation requirements of ASU 2011-05 on December 31, 2011. The adoption of ASU 2011-05 did not have a material impact on our consolidated and combined financial statements.

For information about our critical accounting policies and estimates, refer to Note 2 *Significant Accounting Policies*, included in our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011.

NOTE 3: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

Stock-based compensation expense relates primarily to expense for restricted stock units (RSUs) and stock options. Our outstanding RSUs and stock options generally vest over five years and four years, respectively.

For the three and six months ended June 30, 2012, we recognized total stock-based compensation expense of \$6.8 million and \$11.5 million, respectively. The total income tax benefit related to stock-based compensation expense was \$2.5 million and \$4.0 million for the three and six months ended June 30, 2012, respectively. For the three and six months ended June 30, 2011, we recognized total stock-based compensation expense of \$2.0 million and \$4.4 million, respectively. The total income tax benefit related to stock-based compensation expense was

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\$0.8 million and \$1.7 million for the three and six months ended June 30, 2011, respectively.

Stock Based Awards and Other Equity Instruments Assumed at Spin-Off

Prior to the Spin-Off, we participated in the Amended and Restated Expedia, Inc. 2005 Stock and Annual Incentive Plan, under which we, through Expedia, granted RSUs, stock options, and other stock-based awards to our directors, officers, employees and consultants. Following the Spin-Off, these existing Expedia stock-based awards were primarily converted as follows:

Each vested stock option to purchase shares of Expedia common stock converted into an option to purchase shares of Expedia common stock and an option to purchase shares of TripAdvisor common stock;

Each unvested stock option to purchase shares of Expedia common stock converted into a stock option to purchase shares of common stock of the applicable company for which the employee was employed following the Spin-Off; and

All RSUs converted into RSUs of the applicable company for which the employee was employed following the Spin-Off.

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In addition, upon Spin-Off, we entered into a warrant agreement (the "Warrant Agreement") with Mellon Investor Services LLC and issued warrants exercisable for TripAdvisor common stock in respect of previously outstanding warrants exercisable for Expedia common stock that were adjusted on account of Expedia's reverse stock split and the Spin-Off. The warrants, which totaled 32,186,792 at Spin-Off, were subsequently converted into 7,952,456 shares of our common stock during the six months ended June 30, 2012, prior to their expiration date of May 7, 2012. Refer to our discussion below in this Note 3 "2012 Warrant Activity" for a discussion of warrant activity during the six months ended June 30, 2012.

One tranche of warrants (issued in respect of Expedia warrants that had featured an exercise price of \$12.23 per warrant prior to adjustment) were exercisable for 0.25 (one-quarter) of a share of TripAdvisor common stock at an exercise price equal to \$6.48 per warrant, and the other tranche of warrants (issued in respect of Expedia warrants that had featured an exercise price of \$14.45 per warrant prior to adjustment) were exercisable for 0.25 (one-quarter) of a share of TripAdvisor common stock at an exercise price equal to \$7.66 per warrant. The exercise price could have been paid in cash or via "cashless exercise" as set forth in the Warrant Agreement. In total, at Spin-Off, the warrants could be converted into a maximum of 8,046,698 shares of our common stock without any further adjustments to the Warrant Agreement.

Below is a summary of our stock-based awards and warrants issued upon completion of the conversion of existing Expedia stock-based awards and warrants into TripAdvisor stock-based awards and warrants on December 20, 2011 and the related weighted-average grant date exercise price for options and warrants and the weighted-average grant date fair value for RSUs:

Options and Stock Warrants:

	Potential Shares of Common Stock (in thousands)	Weighted Average Grant Date Exercise Price
Options	6,575	\$ 23.65
Warrants \$6.48 TripAdvisor Warrants	6,047	\$ 25.92
Warrants \$7.66 TripAdvisor Warrants	2,000	\$ 30.64

RSUs:

	Potential Shares of Common Stock (in thousands)	Weighted Average Grant Date Fair Value
RSUs	893	\$ 21.09

TripAdvisor, Inc. 2011 Stock and Annual Incentive Plan ("2011 Incentive Plan")

On December 20, 2011, the 2011 Incentive Plan became effective. A summary of certain important features of the 2011 Incentive Plan can be found in Note 7 "Stock Based Awards and Other Equity Instruments," in the Notes to our Consolidated and Combined Financial Statements in Item 8 of our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011. 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 which is incorporated by reference in our Annual Report on Form 10-K as Exhibit 4.3.

2012 Stock Option Activity

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 first six months of 2012 have a term of ten years from the date of grant and vest over a four-year period.

During the six months ended June 30, 2012, we have issued 2,995,725 stock options under the 2011 Incentive Plan with a grant-date fair value per option of \$20.51. We will amortize the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term of

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four years on a straight-line basis. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

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A summary of the status and activity for stock option awards relating to our common stock for the six months ended June 30, 2012, is presented below:

	Options Outstanding (In thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at January 1, 2012	6,575	\$ 23.65		
Granted	2,996	40.20		
Exercised	708	15.94		\$ 13,123
Cancelled	261	25.49		
Options outstanding at June 30, 2012	8,602	\$ 29.95	5.7	\$ 126,752
Exercisable as of June 30, 2012	3,539	\$ 25.04	3.4	\$ 69,523
Vested and expected to vest after June 30, 2012	7,436	\$ 28.92	5.8	\$ 116,148

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 June 29, 2012 was \$44.69.

The estimated fair value of the options granted under the 2011 Incentive Plan was calculated using a Black-Scholes Merton option-pricing model (Black-Scholes model). The Black-Scholes model incorporates assumptions to value stock-based awards, which includes the risk-free rate of return, 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. We estimated the volatility of our common stock by using an average of historical stock price volatility of publicly traded companies that we consider peers based on daily price observations over a period equivalent or approximate to the expected term of the stock option grants. The decision to use a weighted average volatility factor of a peer group was based upon the relatively short period of availability of data on our common stock. We estimated our expected term using the simplified method for all stock options as we do not have sufficient historical exercise data on our common stock. Our expected dividend yield is zero, as we have not paid and do not anticipate paying dividends on our common stock in the foreseeable future.

The Black-Scholes assumptions used in calculating the estimated fair value of stock options granted under the 2011 Incentive Plan are as follows:

	Three and Six Months Ended June 30, 2012
Risk free interest rate	1.05%
Expected term (in years)	6.21
Volatility	53.34%
Expected dividend yield	0%

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During the six months ended June 30, 2012, we issued 59,951 RSUs under the 2011 Incentive Plan for which the fair value was measured based on the quoted price of our common stock at the date of grant of \$33.27. We will amortize the fair value, net of estimated forfeitures, as stock-based compensation expense over the vesting term of two years on a straight-line basis.

The following table presents a summary of RSU activity on our common stock:

	RSUs Outstanding	Weighted Average Grant- Date Fair Value Per Share
	(In thousands)	
Unvested RSUs outstanding as of January 1, 2012	926	\$ 21.32
Granted	60	33.27
Vested and released (1)	292	14.38
Cancelled	8	25.63
Unvested RSUs outstanding as of June 30, 2012 (2)	686	\$ 24.53

(1) Inclusive of 96,951 RSUs withheld to satisfy minimum tax withholding requirements.

(2) Included in RSUs outstanding at June 30, 2012 are 400,000 RSUs awarded to one of our non-employee Directors, for which vesting is tied to achievement of performance targets and a requisite service period.

2012 Stock Warrant Activity

During the six months ended June 30, 2012, there were a total of 32,186,791 warrants exercised which resulted in a total of 7,952,456 shares of our common stock being issued during that period, which included 31,641,337 warrants for which the exercise price was paid in cash at a weighted average price of \$27.11. We received total exercise proceeds of \$214.5 million related to these warrant exercises. In addition there were 545,454 cashless warrants exercised with a weighted average exercise price of \$25.92 of which we did not receive any exercise proceeds. As of June 30, 2012, we had no outstanding warrants available which could be convertible to shares of our common stock.

A summary of the unrecognized compensation expense, net of estimated forfeitures and the weighted average period remaining at June 30, 2012 related to our non-vested stock options and RSU awards is presented below (in thousands, except per year information):

	Stock Options	RSUs
Unrecognized compensation expense (net of forfeitures)	\$ 59,166	\$ 6,138
Weighted average period remaining (in years)	3.4	1.7

NOTE 4: INCOME TAXES

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

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occur during the interim period.

Our effective tax rate for the three and six months ended June 30, 2012 was 30.7% and 31.5%, respectively. Our effective tax rate for the three and six months ended June 30, 2011 was 36.0% and 36.1%, respectively. For the three and six months ended June 30, 2012, the effective tax rate is less than the federal statutory rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, which was partially offset by state income taxes, non-deductible stock compensation and accruals on uncertain tax positions. The change in the effective tax rate for 2012 compared to the 2011 rate was primarily due to an increase in earnings in jurisdictions outside the United States.

Our policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities as part of our income tax expense. As of June 30, 2012, accrued interest is \$0.4 million, net of federal benefit, and no penalties have been accrued. We do not anticipate any material releases in the next twelve months.

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We are subject to taxation in the United States and various States and foreign jurisdictions. As of June 30, 2012, the Company's tax years for 2008, 2009, 2010 and 2011 are subject to examination by the tax authorities. The Company is currently under an IRS audit for 2009 and 2010, and has various ongoing state income tax audits. As of June 30, 2012 no material assessments have resulted from these audits.

NOTE 5: COMMITMENTS AND CONTINGENCIES

There have been no material changes to our commitments and contingencies since December 31, 2011. (Refer to Note 10 *Commitments and Contingencies*, in the Notes to our Consolidated and Combined Financial Statements in Item 8 of our Annual Report on Form 10-K filed on March 15, 2012 for the year ended December 31, 2011.)

In the ordinary course of business, we and our subsidiaries are parties to legal proceedings and claims involving alleged infringement of third-party intellectual property rights, defamation, and other claims. Rules of 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 the Company and its subsidiaries 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.

NOTE 6: DEBT

Term Loan Facility Due 2016 and Revolving Credit Facility

Overview

On December 20, 2011, in connection with the Spin-Off, we entered into the Credit Agreement, which provides \$600 million of borrowing including:

the Term Loan Facility, or Term Loan, in an aggregate principal amount of \$400 million with a term of five years due December 2016; and

the 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.

The Term Loan and any loans under the Revolving Credit Facility bear interest by reference to a base rate or a Eurocurrency rate, in either case plus an applicable margin based on our leverage ratio. We are also required to pay a quarterly commitment fee, on the average daily unused portion of the Revolving Credit Facility for each fiscal quarter and fees in connection with the issuance of letters of credit. The Term Loan and loans under the Revolving Credit Facility currently bear interest at LIBOR plus 175 basis points, or the Eurocurrency Spread, or the alternate base rate (ABR) plus 75 basis points, and undrawn amounts are currently subject to a commitment fee of 30 basis points.

As of June 30, 2012 we are using a one-month interest period Eurocurrency Spread which is approximately 2.0% per annum. Interest is currently payable on a monthly basis while we are borrowing under the one-month interest rate period. The current interest rates are based on current assumptions, leverage and LIBOR rates and do not take into account that rates will reset periodically.

The Term Loan principal will be repayable in quarterly installments on the last day of each calendar quarter equal to 1.25%, with \$10 million paid during the six months ended June 30, 2012. The payments for the year ending December 31, 2012 will be equal to 1.25% of the original principal amount and will be equal to 2.5% of the original principal amount in each year thereafter, with the balance due on the final maturity date.

The Revolving Credit Facility includes \$40 million of borrowing capacity available for letters of credit and \$40 million for borrowings on same-day notice. Immediately following the Spin-Off, \$10 million was drawn down under the Revolving Credit Facility, which was repaid during the three months ended March 31, 2012.

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Total outstanding borrowings under the Credit Agreement consist of the following (in thousands):

	June 30, 2012
Short-Term Debt:	
Revolving Credit Facility	\$
Term Loan	30,000
Total Short-Term Borrowings	\$ 30,000
Long-Term Debt:	
Term Loan	\$ 360,000
Total Long-Term Borrowings	\$ 360,000

The remaining future minimum principal payment obligations due under the Credit Agreement related to our Term Loan is as follows as of June 30, 2012 (in thousands):

	Payment Amount
2012	\$ 10,000
2013	\$ 40,000
2014	\$ 40,000
2015	\$ 40,000
2016	\$ 260,000
Total	\$ 390,000

Guarantees

All obligations under the Credit Agreement are unconditionally guaranteed by us and each of our existing and subsequently acquired or organized direct or indirect wholly-owned domestic and foreign restricted subsidiaries, subject to certain exceptions for controlled foreign corporations, foreign subsidiaries where applicable law would otherwise be violated or non-material subsidiaries.

Covenants

The Credit Agreement 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 or repurchase our capital stock, 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 Credit Agreement also requires us to maintain a maximum leverage ratio and a minimum cash interest coverage ratio, and contain certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the Credit Agreement will be entitled to take various actions, including the acceleration of all amounts due under Credit Agreement and all actions permitted to be taken by a secured creditor.

As of June 30, 2012 we believe we are in compliance with all of our debt covenants.

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The full text of the Credit Agreement is incorporated by reference into our Annual Report on Form 10-K filed on March 15, 2012 for the year ending December 31, 2011 as Exhibit 4.2.

Chinese Credit Facilities

In addition to our borrowings under the Credit Agreement, we maintain our Chinese Credit Facilities. As of June 30, 2012 and December 31, 2011, we had \$24.4 million and \$16.7 million of short term borrowings outstanding, respectively.

Certain of our Chinese subsidiaries are entered into a RMB 138,600,000 (approximately \$22 million), one-year revolving credit facility with Bank of America (the Chinese Credit Facility BOA) that has a current termination date of December 2012. We currently have \$21.3 million of outstanding borrowings from this credit facility as of June 30, 2012. Our Chinese Credit Facility BOA currently bears interest based at 110% of the People's Bank of China's base rate and was 6.44% as of June 30, 2012.

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In addition, during April 2012, certain of our Chinese subsidiaries entered into a RMB 125,000,000 (approximately \$20 million) one-year revolving credit facility with J.P. Morgan Chase Bank (Chinese Credit Facility-JPM). We currently have \$ 3.1 million of outstanding borrowings from this credit facility as of June 30, 2012. The current rate of interest we are paying on our outstanding borrowings from our Chinese Credit Facility JPM is 6.31% at June 30, 2012.

NOTE 7: SEGMENT INFORMATION

We have one reportable segment: TripAdvisor. We determined our segment based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance. Our primary operating metric for evaluating segment performance is Adjusted EBITDA. Adjusted EBITDA is defined as operating income plus: (1) depreciation of property and equipment, including internal use software and website development; (2) amortization of intangible assets; (3) stock-based compensation; and (4) non-recurring expenses incurred to effect the Spin-Off during the year ended December 31, 2011. Such amounts are detailed in our segment reconciliation below. In addition, please see our discussion of Adjusted EBITDA in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations below.

The following table is a reconciliation of Adjusted EBITDA to operating income and net income for the periods presented (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Adjusted EBITDA	\$ 96,921	\$ 92,487	\$ 181,110	\$ 174,494
Depreciation (1)	(4,715)	(4,514)	(8,996)	(8,616)
OIBA (2)	92,206	87,973	172,114	165,878
Amortization of intangible assets	(1,760)	(1,132)	(3,599)	(3,249)
Stock-based compensation	(6,768)	(1,968)	(11,460)	(4,442)
Spin-off costs		(1,054)		(1,054)
Operating income	83,678	83,819	157,055	157,133
Other interest (expense) income, net	(2,405)	217	(5,337)	315
Other, net	(4,539)	457	(3,843)	1,422
Provision for income taxes	(23,569)	(30,383)	(46,539)	(57,389)
Income before income taxes	53,165	54,110	101,336	101,481
Net income attributable to noncontrolling interest	(146)	(46)	(206)	(139)
Net income attributable to TripAdvisor, Inc.	\$ 53,019	\$ 54,064	\$ 101,130	\$ 101,342

(1) Includes internal use software and website development.

(2) Our primary operating metric prior to the Spin-Off for evaluating operating performance was OIBA, as reported on our Registration Statement. OIBA is defined as operating income plus: (1) amortization of intangible assets and any related impairment; (2) stock-based compensation expense; and (3) non-recurring expenses incurred to effect the Spin-Off during the year ended December 31, 2011. This operating metric is no longer being used by our management to measure operating performance and is only being shown above to illustrate the financial impact as we converted to a new operating metric post Spin-Off.

NOTE 8: STOCKHOLDERS EQUITY**Common Stock and Class B Common Stock**

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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 is currently three directors. 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.

As discussed in our Annual Report on Form 10-K filed March 15, 2012 (*Note 1 Organization and Basis of Presentation*), in connection with the Spin-Off a one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, which resulted in 120,661,020 shares of Common Stock and 12,799,999 shares of Class B common stock outstanding immediately following the Spin-Off.

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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 June 30, 2012, no preferred shares had been issued.

Share Repurchases

During the period January 1, 2012 through June 30, 2012, our Board of Directors did not authorize any share buyback program and we have not repurchased any shares of outstanding common stock.

Dividends

During the period January 1, 2012 through June 30, 2012, our Board of Directors did not declare any dividends on our outstanding common stock.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) for the six months ended June 30, 2012 and the year ended December 31, 2011 is comprised of accumulated foreign currency translation adjustments.

NOTE 9: CASH AND CASH EQUIVALENTS

Our cash and cash equivalents consist primarily of cash and liquid financial instruments, including money market funds, with maturities of 90 days or less when purchased.

Cash and cash equivalents by security type at June 30, 2012 were as follows:

<i>(in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$ 409,120	\$	\$	\$ 409,120
Money market funds cash equivalent	69,121			69,121
Total	\$ 478,241	\$	\$	\$ 478,241

Cash and cash equivalents by security type at December 31, 2011 were as follows:

<i>(in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$ 114,532	\$	\$	\$ 114,532
Money market funds cash equivalent	69,000			69,000
Total	\$ 183,532	\$	\$	\$ 183,532

NOTE 10: FAIR VALUE MEASUREMENTS

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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. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. 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 based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations 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 based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

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The following tables provide a summary of the fair value measurements of our assets as of June 30, 2012 and December 31, 2011:

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Assets at Fair Value at June 30, 2012
Money market funds cash equivalent (1)	\$ 69,121	\$	\$	\$ 69,121
Total	\$ 69,121	\$	\$	\$ 69,121

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Assets at Fair Value at December 31, 2011
Money market funds cash equivalent (1)	\$ 69,000	\$	\$	\$ 69,000
Total	\$ 69,000	\$	\$	\$ 69,000

- (1) Cash equivalents include money market investment accounts that hold excess liquid funds. The fair value measurement of these assets is based on quoted market prices in active markets and, therefore, is recorded at fair value on a recurring basis and classified as Level 1 assets.

We did not have any Level 2 or 3 assets for the period ended June 30, 2012 or December 31, 2011.

One of our acquisitions made during 2008 includes noncontrolling interests with certain rights whereby we may acquire, and the minority shareholders may sell to us, the additional shares of the subsidiary, at fair value or at adjusted fair values at our discretion, beginning in the fourth quarter of 2012. Fair value determinations are based on various internal valuation techniques, including market comparables and discounted cash flow projections and are considered a Level 3 liability at June 30, 2012 and December 31, 2011. Certain assumptions are used in determining fair value, including revenue growth rates and discount rates. Changes in these assumptions would impact the fair value. In addition, under certain circumstances the parties may be required to submit to arbitration in order to determine the final fair value of the noncontrolling interests. Changes in the fair value of the shares for which the minority holders may sell to us are recorded to the redeemable noncontrolling interest with charges or credits to additional paid in capital. Our redeemable noncontrolling interest is not material for all periods presented and is included in other current liabilities.

We currently invest excess cash balances primarily in cash deposits and money market investment accounts at major banks. The carrying amount of cash deposits, cash equivalents, trade receivables, related party receivables, prepaid expenses and other current assets, trade payables, accrued and other current liabilities and deferred revenue as reported on the unaudited consolidated and combined balance sheet as of June 30, 2012 and December 31, 2011, approximate their fair value because of the short maturity of those instruments. The carrying value of the borrowings outstanding on our Credit Agreement bear interest at a variable rate and are considered to approximate fair value.

NOTE 11: EARNINGS PER SHARE

As discussed in our Annual Report on Form 10-K filed March 15, 2012 (Note 1 *Organization and Basis of Presentation*,) in connection with the Spin-Off a one-for-two reverse stock split of outstanding Expedia capital stock occurred immediately prior to the Spin-Off, which resulted in 120,661,020 shares of common stock and 12,799,999 shares of Class B common stock outstanding immediately following the Spin-Off.

Basic Earnings Per Share

For the three and six months ended June 30, 2012, we computed basic earnings per share using the number of shares of common stock and Class B common stock outstanding as of December 31, 2011 plus the weighted average of any additional shares issued and outstanding during the three and six months ended June 30, 2012.

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For the three and six months ended June 30, 2011, we computed basic earnings per share using the number of shares of common stock and Class B common stock outstanding immediately following the Spin-Off, as if such shares were outstanding for the entire period.

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Diluted Earnings Per Share

For the three and six months ended June 30, 2012, we computed diluted earnings per share using (i) the number of shares of common stock and Class B common stock outstanding at December 31, 2011, (ii) the weighted average of any additional shares issued and outstanding for the three and six months ended June 30, 2012, and (iii) if dilutive, the incremental weighted average common stock that we would issue upon the assumed exercise of common equivalent shares related to stock options and stock warrants and the vesting of restricted stock units using the treasury stock method during the three and six months ended June 30, 2012, and (iv) if dilutive, performance based awards based on the number of shares that would be issuable as of the end of the reporting period assuming the end of the reporting period was also the end of the contingency period.

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise, the average unrecognized compensation cost during the period and any tax benefits credited upon exercise to additional paid-in-capital. The treasury stock method assumes that a company uses the proceeds from the exercise of an award to repurchase common stock at the average market price for the period. Windfall tax benefits created upon the exercise of an award would be added to assumed proceeds, while shortfalls charged to additional paid-in-capital would be deducted from assumed proceeds. Any shortfalls not covered by the windfall tax pool would be charged to the income statement and would be excluded from the calculation of assumed proceeds, if any.

For the three and six months ended June 30, 2011, we computed diluted earnings per share using (i) the number of shares of common stock and Class B common stock outstanding immediately following the Spin-Off, as no TripAdvisor equity awards were outstanding prior to the Spin-Off.

Below is a reconciliation of the weighted average number of shares