UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 1-36691

Booking Holdings Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**06-1528493**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

800 Connecticut Avenue
Norwalk, Connecticut 06854
(address of principal executive offices)
(203) 299-8000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed, since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 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 (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐
Smaller reporting company ☐	Emerging growth company ☐	

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

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

Number of shares of Common Stock outstanding at August 1, 2018:

Common Stock, par value $0.008 per share	**47,472,026**
(Class)	(Number of Shares)

Booking Holdings Inc.
Form 10-Q

For the Three Months Ended June 30, 2018

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Booking Holdings Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,186,665	$ 2,541,604
Short-term investments in marketable securities	4,145,753	4,859,873
Accounts receivable, net of allowance for doubtful accounts of $47,258 and $39,282, respectively	1,715,055	1,217,801
Prepaid expenses and other current assets	985,901	415,527
Total current assets	10,033,374	9,034,805
Property and equipment, net	613,462	480,081
Intangible assets, net	2,162,766	2,176,823
Goodwill	2,850,396	2,737,671
Long-term investments	9,444,908	10,872,527
Other assets	191,347	149,356
Total assets	$ 25,296,253	$ 25,451,263
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,053,509	$ 667,523
Accrued expenses and other current liabilities	1,418,603	1,138,980
Deferred merchant bookings	1,802,182	980,455
Convertible debt	948,190	710,910
Total current liabilities	5,222,484	3,497,868
Deferred income taxes	502,581	481,139
Long-term U.S. transition tax liability	1,144,682	1,250,846
Other long-term liabilities	143,651	148,061
Long-term debt	7,764,580	8,809,788
Total liabilities	14,777,978	14,187,702
Commitments and Contingencies (See Note 12)		
Convertible debt	45,643	2,963
Stockholders' equity:		
Common stock, $0.008 par value; authorized 1,000,000,000 shares, 62,926,877 and 62,689,097 shares issued, respectively	489	487
Treasury stock, 15,162,512 and 14,216,819 shares, respectively	(10,630,361)	(8,698,829)
Additional paid-in capital	5,225,709	5,783,089
Retained earnings	15,953,078	13,938,869
Accumulated other comprehensive income (loss)	(76,283)	236,982
Total stockholders' equity	10,472,632	11,260,598
Total liabilities and stockholders' equity	$ 25,296,253	$ 25,451,263

See Notes to Unaudited Consolidated Financial Statements.

Booking Holdings Inc.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Agency revenues	$ 2,566,293	$ 2,332,371	$ 4,679,632	$ 4,117,684
Merchant revenues	709,864	498,133	1,236,331	940,178
Advertising and other revenues	260,937	194,052	549,332	386,098
Total revenues	3,537,094	3,024,556	6,465,295	5,443,960
Cost of revenues		67,425		147,826
Gross profit		2,957,131		5,296,134
Operating expenses:				
Performance marketing	1,141,893	1,151,343	2,248,100	2,133,515
Brand marketing	123,734	130,321	225,136	211,139
Sales and other expenses	203,593	121,915	369,393	231,514
Personnel, including stock-based compensation of $74,540, $66,879, $145,945 and $125,827, respectively	522,250	385,708	1,021,137	736,738
General and administrative	158,753	143,882	320,892	279,429
Information technology	58,950	44,831	119,391	84,776
Depreciation and amortization	106,666	85,872	209,756	169,302
Total operating expenses	2,315,839	2,063,872	4,513,805	3,846,413
Operating income	1,221,255	893,259	1,951,490	1,449,721
Other (expense) income:				
Interest income	45,690	36,821	92,569	68,813
Interest expense	(64,837)	(60,942)	(135,072)	(116,659)
Net unrealized gains on marketable equity securities	21,849	—	76,363	—
Foreign currency transactions and other	(15,046)	(6,021)	(23,102)	(11,148)
Total other (expense) income	(12,344)	(30,142)	10,758	(58,994)
Earnings before income taxes	1,208,911	863,117	1,962,248	1,390,727
Income tax expense	231,539	142,908	377,666	214,895
Net income	$ 977,372	$ 720,209	$ 1,584,582	$ 1,175,832
Net income applicable to common stockholders per basic common share	$ 20.34	$ 14.66	$ 32.87	$ 23.92
Weighted-average number of basic common shares outstanding	48,055	49,131	48,202	49,161
Net income applicable to common stockholders per diluted common share	$ 20.13	$ 14.39	$ 32.42	$ 23.49
Weighted-average number of diluted common shares outstanding	48,550	50,056	48,877	50,049

See Notes to Unaudited Consolidated Financial Statements.

Booking Holdings Inc.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 977,372	$ 720,209	$ 1,584,582	$ 1,175,832
Other comprehensive income, net of tax				
Foreign currency translation adjustments, net of tax charge of $36,381, tax benefit of $100,608, tax charge of $20,358 and tax benefit of $120,341, respectively (1)	(127,862)	139,883	(66,986)	175,688
Reclassification of net unrealized gains on marketable equity securities to retained earnings, net of tax charge of $57,597 (2)	—	—	(241,088)	—
Net unrealized (losses) gains on marketable securities, net of tax charge of $430 and $8,076, tax benefit of $998 and tax charge of $15,931, respectively (3)	(4,827)	186,977	(5,191)	532,911
Comprehensive income	$ 844,683	$ 1,047,069	$ 1,271,317	$ 1,884,431

(1) Foreign currency translation adjustments result from currency fluctuations on the translation of the Company's international non-U.S. Dollar denominated net assets. Foreign currency translation adjustments were unfavorable for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 because the U.S. Dollar strengthened against certain currencies in which the Company's net assets are denominated.

During the three and six months ended June 30, 2018, the Company recorded deferred tax benefits of $21.0 million and $10.5 million, respectively, related to foreign currency translation adjustments to its one-time deemed repatriation tax liability recorded at December 31, 2017 and current year foreign earnings subject to U.S. federal and state income tax, resulting from the introduction of the U.S. Tax Cuts and Jobs Act (the "Tax Act"). Prior to January 1, 2018, foreign currency translation adjustments excluded U.S. federal and state income taxes as a result of the Company's intention to indefinitely reinvest the earnings of its international subsidiaries outside of the United States.

Foreign currency translation adjustments also include tax charges of $57.3 million and $30.8 million for the three and six months ended June 30, 2018, respectively, and tax benefits of $100.6 million and $120.3 million for the three and six months ended June 30, 2017, respectively, associated with the Company's Euro-denominated debt, which is designated as a net investment hedge against the impact of currency fluctuations of the Company's Euro-denominated net assets (see Note 8).

(2) Changes in the fair value of the Company's investment in Ctrip.com International Ltd. ("Ctrip") equity securities for periods beginning after December 31, 2017 are recognized in net income pursuant to the adoption of the accounting update on financial instruments in the first quarter of 2018 (see Note 1). Net unrealized gains, net of tax, on marketable equity securities at December 31, 2017 have been reclassified from accumulated other comprehensive income to retained earnings.

(3) Net unrealized (losses) gains on marketable securities for the three and six months ended June 30, 2018 include net unrealized losses of $4.3 million and $6.1 million before tax, respectively, of which net unrealized losses of $15.6 million and net unrealized gains of $16.8 million, respectively, were exempt from tax in the Netherlands. Net unrealized gains of $11.3 million and net unrealized losses of $22.9 million for the three and six months ended June 30, 2018, respectively, were taxable at a 25% tax rate in the Netherlands, resulting in a tax charge of $2.8 million and a tax benefit of $5.7 million, respectively. The Company also recorded a U.S. tax benefit of $2.4 million and a U.S. tax charge of $4.7 million for the three and six months ended June 30, 2018, respectively, related to these investments.

Net unrealized (losses) gains on marketable securities for the three and six months ended June 30, 2017 include net unrealized gains of $195.0 million and $548.8 million before tax, respectively, of which net unrealized gains of $161.4 million and $485.1 million, respectively, were exempt from tax in the Netherlands. Net unrealized gains of $33.6 million and $63.7 million for the three and six months ended June 30, 2017, respectively, were taxable at a 25% tax rate in the Netherlands, resulting in tax charges of $8.0 million and $15.9 million, respectively.

See Notes to Unaudited Consolidated Financial Statements.

Booking Holdings Inc.
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In thousands)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2017	62,689	$ 487	(14,217)	$ (8,698,829)	$5,783,089	$13,938,869	$ 236,982	$11,260,598
Net income	—	—	—	—	—	1,584,582	—	1,584,582
Foreign currency translation adjustments, net of tax charge of $20,358	—	—	—	—	—	—	(66,986)	(66,986)
Net unrealized losses on marketable securities, net of tax benefit of $998	—	—	—	—	—	—	(5,191)	(5,191)
Reclassification adjustment for convertible debt in mezzanine	—	—	—	—	(42,680)	—	—	(42,680)
Exercise of stock options and vesting of restricted stock units and/or performance share units	186	2	—	—	1,327	—	—	1,329
Repurchase of common stock	—	—	(946)	(1,931,532)	—	—	—	(1,931,532)
Stock-based compensation and other stock-based payments	—	—	—	—	146,682	—	—	146,682
Conversion of debt	—	—	—	—	(773,150)	—	—	(773,150)
Common stock issued in an acquisition	52	—	—	—	110,441	—	—	110,441
Cumulative effect of adoption of accounting standard updates	—	—	—	—	—	429,627	(241,088)	188,539
Balance, June 30, 2018	62,927	$ 489	(15,163)	$(10,630,361)	$5,225,709	$15,953,078	$ (76,283)	$10,472,632

See Notes to Unaudited Consolidated Financial Statements.

Booking Holdings Inc.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30,	
	2018	**2017**
OPERATING ACTIVITIES:		
Net income	$ 1,584,582	$ 1,175,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	117,427	85,123
Amortization	92,329	84,179
Provision for uncollectible accounts	62,033	26,127
Deferred income tax benefit	(21,328)	(40,939)
Net unrealized gains on marketable equity securities	(76,363)	—
Stock-based compensation expense and other stock-based payments	149,501	126,047
Amortization of debt issuance costs	3,793	4,509
Amortization of debt discount	27,371	35,386
Loss on early extinguishment of debt	—	1,027
Changes in assets and liabilities, net of effects of an acquisition:		
Accounts receivable	(391,802)	(333,545)
Prepaid expenses and other current assets	(574,151)	(438,641)
Accounts payable, accrued expenses and other current liabilities	1,328,616	873,705
Other long-term assets and liabilities	(11,789)	3,024
Net cash provided by operating activities	2,290,219	1,601,834
INVESTING ACTIVITIES:		
Purchase of investments	(1,359,605)	(2,869,903)
Proceeds from sale of investments	3,497,179	1,480,236
Additions to property and equipment	(235,035)	(147,269)
Acquisitions and other investments, net of cash acquired	(139,386)	(490)
Net cash provided by (used in) investing activities	1,763,153	(1,537,426)
FINANCING ACTIVITIES:		
Proceeds from short-term borrowing	3,033	4,599
Proceeds from the issuance of long-term debt	—	1,051,722
Payments for conversion of senior notes	(1,487,109)	(83,473)
Payment of debt	(348)	—
Payments for repurchase of common stock	(1,905,280)	(555,250)
Proceeds from exercise of stock options	1,329	2,790
Net cash (used in) provided by financing activities	(3,388,375)	420,388
Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents	(20,457)	68,570
Net increase in cash, cash equivalents and restricted cash and cash equivalents	644,540	553,366
Cash, cash equivalents and restricted cash and cash equivalents, beginning of period	2,563,341	2,082,007
Cash, cash equivalents and restricted cash and cash equivalents, end of period	$ 3,207,881	$ 2,635,373
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	$ 984,524	$ 577,247
Cash paid during the period for interest	$ 100,662	$ 60,308
Non-cash financing activity for loan forgiveness	$ —	$ 1,000
Non-cash operating and financing activity for an acquisition (see Note 7)	$ 50,751	$ —
Non-cash investing and financing activity for an acquisition (see Note 7)	$ 59,690	$ —

See Notes to Unaudited Consolidated Financial Statements.

Booking Holdings Inc.
Notes to Unaudited Consolidated Financial Statements

1. BASIS OF PRESENTATION

Management of Booking Holdings Inc. (the "Company") is responsible for the Unaudited Consolidated Financial Statements included in this document. The Unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include all normal and recurring adjustments that management of the Company considers necessary for a fair presentation of its financial position and operating results. The Company prepared the Unaudited Consolidated Financial Statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, the Company condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements. These statements should be read in combination with the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, including its primary brands of Booking.com, priceline, KAYAK, agoda.com, Rentalcars.com and OpenTable. All inter-company accounts and transactions have been eliminated in consolidation. The functional currency of the Company's foreign subsidiaries is generally the respective local currency. Assets and liabilities are translated into U.S. Dollars at the rate of exchange existing at the balance sheet date. Income statement amounts are translated at the average exchange rates for the period. Translation gains and losses are included as a component of "Accumulated other comprehensive income (loss)" in the accompanying Unaudited Consolidated Balance Sheets. Foreign currency transaction gains and losses are included in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for any subsequent quarter or the full year.

Change in Presentation

In the first quarter of 2018, the Company changed the presentation of "Performance advertising", "Brand advertising", and "Sales and marketing" to "Performance marketing", "Brand marketing" and "Sales and other expenses" in the Unaudited Consolidated Statements of Operations. The descriptions of these new lines are as follows:

"Performance marketing" expenses are marketing expenses generally measured by return on investment or an increase in bookings over a specified time period. These expenses consist primarily of the costs of: (1) search engine keyword purchases; (2) referrals from meta-search and travel research websites; (3) affiliate programs; and (4) other performance-based advertisements, including certain incentive programs.

"Brand marketing" expenses are marketing expenses to build brand awareness over a specified time period. These expenses consist primarily of television advertising, online video advertising (including the airing of our television advertising online) and online display advertising, as well as other marketing expenses such as public relations, trade shows and sponsorships.

"Sales and other expenses" are generally variable in nature and consist primarily of: (1) credit cards and other payment processing fees associated with merchant transactions; (2) fees paid to third parties that provide call center, website content translations and other services; (3) provisions for customer chargebacks associated with merchant transactions; (4) customer relations costs; (5) provisions for bad debt, primarily related to agency accommodation commission receivables; and (6) insurance claim costs.

Reclassification

In conjunction with the adoption of the current revenue standard effective January 1, 2018, the Company reclassified certain expenses from "Cost of revenues" to "Sales and other expenses" or "General and administrative" expenses in its Unaudited Consolidated Statement of Operations for the three and six months ended June 30, 2017 to conform to the current period presentation.

The change in presentation and the reclassification for the three and six months ended June 30, 2017 had no impact on operating income or net income and are summarized below (in thousands):

Previously Reported	**Three Months Ended June 30, 2017**	**Six Months Ended June 30, 2017**
Cost of revenues	$ 72,742	$ 157,911
Performance advertising	1,147,589	2,128,362
Brand advertising	121,187	194,199
Sales and marketing	131,734	245,770
General and administrative	141,634	277,181

Current Presentation	**Three Months Ended June 30, 2017**	**Six Months Ended June 30, 2017**
Cost of revenues	$ 67,425	$ 147,826
Performance marketing	1,151,343	2,133,515
Brand marketing	130,321	211,139
Sales and other expenses	121,915	231,514
General and administrative	143,882	279,429

Balance Sheet Reclassification

In the second quarter of 2018, the Company changed the presentation of "Long-term investments" to include investments in private companies, which were previously included in "Other assets" in the Unaudited Consolidated Balance Sheets. Therefore, the Company reclassified $450.9 million for investments in private companies to conform its Consolidated Balance Sheet at December 31, 2017 to this current period presentation. See the section "Long-term Equity Investments without Readily Determinable Fair Value" within Note 5 for more detail.

Restricted Cash and Cash Equivalents: Restricted cash and cash equivalents at June 30, 2018 and December 31, 2017 principally relates to the minimum cash requirement for Rentalcars.com's insurance business established in the fourth quarter of 2017. The following table reconciles cash, cash equivalents and restricted cash and cash equivalents reported in the Unaudited Consolidated Balance Sheets to the total amount shown in the Unaudited Consolidated Statements of Cash Flows (in thousands):

	June 30, 2018	**December 31, 2017**
As included in the Unaudited Consolidated Balance Sheets:		
Cash and cash equivalents	$ 3,186,665	$ 2,541,604
Restricted cash and cash equivalents included in prepaid expenses and other current assets	21,216	21,737
Total cash, cash equivalents and restricted cash and cash equivalents as shown in the Unaudited Consolidated Statements of Cash Flows	$ 3,207,881	$ 2,563,341

Recent Accounting Pronouncements Adopted

Improvements to Non-employee Share-Based Payment Accounting

In June 2018, the Financial Accounting Standards Board ("FASB") issued a new accounting update which amends the guidance on share-based payments granted to non-employees for goods and services to align it with the guidance for share-based payments to employees. Under this new guidance, share-based awards to non-employees will be generally measured at fair value on the grant date of the awards and entities will need to assess the probability of satisfying performance conditions, if any are present, to determine expense to be recognized.

This update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption allowed. The Company early adopted this new standard in the second quarter of 2018 and applied this update as of January 1, 2018. The adoption of this update did not have a material impact to the Unaudited Consolidated Financial Statements.

Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued a new accounting update which amends the guidance on the recognition and measurement of financial instruments. The update (1) requires an entity to measure equity investments (except those accounted for under the equity method or those that result in consolidation of the investee) at fair value with changes in fair value recognized in net income rather than accumulated other comprehensive income, (2) allows an entity to elect to measure those equity investments that 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, (3) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and (4) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's evaluation of their other deferred tax assets.

This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this update in the first quarter of 2018. The Company recorded an increase of $241.1 million to retained earnings for the net unrealized gain, net of tax, related to its investment in Ctrip equity securities, with an offsetting adjustment to accumulated other comprehensive income as of January 1, 2018. Changes in fair value of the Company's investment in Ctrip equity securities subsequent to January 1, 2018 are recognized in net income (see Note 5). In addition, the Company elected to continue to use the cost method of accounting for equity investments without a readily determinable fair value.

Revenue from Contracts with Customers

In May 2014, the FASB issued a new accounting standard on the recognition of revenue from contracts with customers that was designed to create greater comparability for financial statement users across industries and jurisdictions. The core principle of this new standard is that an "entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." This new standard also requires enhanced disclosures on the nature, amount, timing and uncertainty of revenue from contracts with customers. Since May 2014, the FASB has issued several amendments to this new standard, including additional guidance, and deferred the effective date for public business entities to annual and interim periods beginning after December 15, 2017.

The Company adopted this new standard on January 1, 2018. The Company recorded a net increase to its retained earnings of $188.5 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting the new standard, with substantially all of the impact related to the Company's travel reservation services. See Note 2 for more information on the effects of the adoption of this standard.

Other Recent Accounting Pronouncements

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued a new accounting update to shorten the premium amortization period of purchased callable debt securities with non-contingent call features that are callable at fixed prices and on preset dates from their contractual maturity to the earliest call date. For public business entities, this update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Entities are required to apply this update on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The adoption of this update will not have a material impact to the Company's Consolidated Financial Statements as almost all of the Company's investments in callable debt securities include a make-whole provision, which is excluded from the scope of this update.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued a new accounting update to simplify the test for goodwill impairment by eliminating Step 2, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill, which requires a hypothetical purchase price allocation, with the carrying amount of that reporting unit's goodwill. Under this update, an entity would perform its quantitative annual or interim goodwill impairment test using the current Step 1 test and recognize an impairment charge for the excess of the carrying value of a reporting unit over its fair value.

For public business entities, this update is effective for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests occurring after January 1, 2017. The update will be applied prospectively. The Company has not early adopted this update.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued a new accounting update 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 update 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 update 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 update is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities are required to apply this update on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact to its Consolidated Financial Statements of adopting this update and does not expect there to be a material impact.

Leases

In February 2016, the FASB issued a new accounting standard intended to improve the financial reporting of lease transactions. The new accounting standard requires lessees to recognize an asset and a liability on the balance sheet for the rights and obligations created by entering into a lease transaction. The new standard retains the dual-model concept by requiring entities to determine if a lease is an operating or financing lease. The lessor accounting model remains largely unchanged. The new standard expands qualitative and quantitative disclosures for lessees.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 using a modified retrospective approach applied to the earliest comparative period in the financial statements. In July 2018, the FASB approved a new transition method that would permit issuers to apply the standard as of January 1, 2019. Early adoption is permitted.

The Company will adopt this standard in the first quarter of 2019 and apply it as of January 1, 2019. The Company is in the process of implementing a software platform to facilitate compliance with the new accounting and disclosure requirements. The most significant change will be related to the recognition of right-of-use assets and lease liabilities in the Company's balance sheet for real estate operating leases.

2. REVENUE RECOGNITION

Adoption of ASC Topic 606, *Revenues from Contracts with Customers*

On January 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers*, using a modified retrospective method applied to all contracts as of January 1, 2018. Therefore, for reporting periods beginning after December 31, 2017, the financial statements are prepared in accordance with the current revenue standard and the financial statements for all periods prior to January 1, 2018 are presented under the previous revenue standard.

For periods beginning after December 31, 2017, the Company recognizes revenue for travel reservation services when the travel begins rather than when the travel is completed. For example, revenues for accommodation reservation services, which were principally recognized at check-out under the previous revenue standard, are now recognized at check-in under the current revenue standard. The Company currently expects that this timing change will not have a significant impact to its annual revenues and net income, although the effects on quarterly revenues and net income are expected to be more significant.

In addition, revenues from priceline's *Name Your Own Price®* ("NYOP") transactions were previously presented on a gross basis with the amount remitted to the travel service providers reported as cost of revenues. Under the current revenue standard, NYOP revenues are reported on a net basis with the amount remitted to the travel service providers recorded as an offset in merchant revenues. Therefore, for periods beginning after December 31, 2017, the Company no longer presents "Cost of revenues" or "Gross profit" in its Consolidated Statements of Operations. Total revenues reported in 2018 are comparable to gross profit reported in previous years.

Billing and cash collections remain unchanged and, therefore, "Net cash provided by operating activities" as presented in the Consolidated Statements of Cash Flows is not impacted.

The Company recorded a net increase to its retained earnings of $188.5 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting the current revenue standard, with substantially all of the impact related to the Company's travel reservation services. In addition, since the Company is using the modified retrospective method of adopting the current revenue standard, the Company is required to disclose the financial impacts to its Consolidated Balance Sheets and Consolidated Statements of Operations for all 2018 reporting periods (refer to the disclosures below for this additional information).

The cumulative effects of the revenue accounting changes on the Company's Unaudited Consolidated Balance Sheet as of January 1, 2018 were as follows (in thousands):

	Balance at December 31, 2017	Adjustments	Balance at January 1, 2018
ASSETS			
Current assets:			
Accounts receivable, net	$ 1,217,801	$ 205,324	$ 1,423,125
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 667,523	$ 171,644	$ 839,167
Accrued expenses and other current liabilities	1,138,980	44,374	1,183,354
Deferred merchant bookings	980,455	(201,647)	778,808
Deferred income taxes	481,139	2,414	483,553
Stockholders' equity:			
Retained earnings	13,938,869	188,539	14,127,408

The following tables summarize the impacts of adopting the current revenue standard (in thousands, except per share data):

Unaudited Consolidated Balance Sheets at June 30, 2018:

	As reported (current revenue standard)	Current period adjustments	As adjusted (previous revenue standard)
ASSETS			
Current assets:			
Accounts receivable, net	$ 1,715,055	$ (148,982)	$ 1,566,073
Prepaid expenses and other current assets	985,901	37,573	1,023,474
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 1,053,509	$ (110,170)	$ 943,339
Accrued expenses and other current liabilities	1,418,603	(8,883)	1,409,720
Deferred merchant bookings	1,802,182	145,297	1,947,479
Deferred income taxes	502,581	(285)	502,296
Stockholders' equity:			
Retained earnings	15,953,078	(139,366)	15,813,712
Accumulated other comprehensive income (loss)	(76,283)	1,998	(74,285)

Unaudited Consolidated Statements of Operations for the Three Months Ended June 30, 2018:

	As reported (current revenue standard)	Current period adjustments	As adjusted (previous revenue standard)
Agency revenues	$ 2,566,293	$ (3,309)	$ 2,562,984
Merchant revenues	709,864	40,137	750,001
Advertising and other revenues	260,937	13	260,950
Cost of revenues		44,290	44,290
Operating expenses:			
Performance marketing	1,141,893	(1,390)	1,140,503
Sales and other expenses	203,593	(205)	203,388
General and administrative	158,753	233	158,986
Foreign currency transactions and other	(15,046)	(1,066)	(16,112)
Income tax expense	231,539	(1,011)	230,528
Net income	977,372	(6,142)	971,230
Net income applicable to common stockholders per basic common share	20.34	(0.13)	20.21
Net income applicable to common stockholders per diluted common share	20.13	(0.13)	20.00

Unaudited Consolidated Statements of Operations for the Six Months Ended June 30, 2018:

	As reported (current revenue standard)	Current period adjustments		As adjusted (previous revenue standard)
Agency revenues	$ 4,679,632	$ 52,678		$ 4,732,310
Merchant revenues	1,236,331	101,677		1,338,008
Advertising and other revenues	549,332	104		549,436
Cost of revenues		89,950		89,950
Operating expenses:				
Performance marketing	2,248,100	1,004		2,249,104
Sales and other expenses	369,393	—		369,393
General and administrative	320,892	1,034		321,926
Foreign currency transactions and other	(23,102)	789		(22,313)
Income tax expense	377,666	14,087		391,753
Net income	1,584,582	49,173	(1)	1,633,755
Net income applicable to common stockholders per basic common share	32.87	1.02		33.89
Net income applicable to common stockholders per diluted common share	32.42	1.01		33.43

(1) The current period adjustment represents the net income recorded directly to retained earnings on January 1, 2018 of $188.5 million that would have been recognized in the first quarter of 2018 under the previous revenue standard, partially offset by $139.4 million that would have been recognized in the third quarter of 2018 under the previous revenue standard.

Revenue Recognition

Online travel reservation services

For periods beginning after December 31, 2017, the Company recognizes revenue for travel reservation services when the travel begins rather than when the travel is completed. Substantially all of the Company's revenues are generated by providing online travel reservation services, which principally allows travelers to book travel reservations (e.g., accommodation, rental car and airline ticket reservations) with travel service providers (i.e., a hotel or other accommodation, rental car company or airline) through the Company’s websites and mobile apps. While the Company generally refers to a consumer that books travel reservation services on the Company's platforms as its customer, for accounting purposes, the Company's "customers" are the travel service providers and, in certain merchant transactions, the travelers. The Company's contracts with the travel service providers give them the ability to market their reservation availability without transferring responsibility to deliver the travel service to the Company; therefore, the Company's revenues are presented on a net basis in the Consolidated Statements of Operations. These contracts include payment terms and establish the consideration to which the Company is entitled, which includes either a commission or a margin on the travel transaction. Revenue is measured based on the expected consideration specified in the contract with the travel service provider, considering the effects of sales incentives, "no show" cancellations (where the traveler has not cancelled the reservation and does not arrive on the scheduled reservation date) and "late" cancellations (where the travel service provider accepts a cancellation after its cancellation cut-off date). Estimates for cancellations are based on historical experience.

Online travel reservation services are recorded at a point in time when the Company has completed its post-booking services and the travelers begin using the arranged travel services. These services are classified into two categories:

- Agency revenues are derived from travel-related transactions where the Company does not receive payments from travelers for the travel reservation services provided. The Company invoices the travel service providers for its commissions in the month that travel is completed. Agency revenues consist almost entirely of travel reservation commissions, as well as certain global distribution fees ("GDS"), reservation booking fees and certain travel insurance fees.

- Merchant revenues are derived from services where the Company receives payments from travelers for the travel reservation services provided, generally at the time of booking. The Company records cash collected from travelers, which includes the amounts owed to the travel service providers and the Company's commission or margin and fees, as deferred merchant bookings until the arranged travel service begins. Merchant revenues include net revenues (i.e., the amount charged to travelers less the amount owed to travel service providers) and travel reservation commissions in connection with our accommodation reservations and rental car services; ancillary fees, including damage excess waiver insurance and certain travel insurance fees and certain GDS reservation booking fees; and customer processing fees. Substantially all merchant revenues are for merchant services derived from transactions where travelers book accommodations reservations or rental car reservations from travel service providers.

  Pursuant to the terms of the Company's merchant services, the travel service providers are permitted to bill the Company for the underlying cost of the services during a specified period of time. If the Company is not billed by the travel service providers within the specified period of time, the Company increases its revenue by the unbilled amounts.

Tax Recovery Charge, Occupancy Taxes and State and Local Taxes

For merchant transactions, the Company charges the traveler an amount intended to cover the taxes that the Company anticipates the travel service provider will remit to the local taxing authorities ("tax recovery charge"). Tax rate information for calculating the tax recovery charge is provided to the Company by the travel service providers.

In certain taxing jurisdictions, the Company is required by statute, regulation or court order to collect and remit certain local occupancy tax, general excise and/or sales tax ("transaction-related taxes") imposed upon its margin and/or service fees. In other taxing jurisdictions, the Company is required to collect from the traveler and remit directly to the taxing jurisdiction transaction-related taxes imposed on the full amount of the transaction, which includes taxes on the margin, service fees and the underlying rate provided by the travel service provider. The rate information for calculating these taxes is provided to the Company directly from the taxing jurisdictions. The taxes collected from travelers are reported on a net basis in Revenues in the Unaudited Consolidated Statements of Operations.

Advertising and Other Revenues

Advertising and other revenues are primarily recognized by KAYAK and OpenTable and to a lesser extent by priceline for advertising placements on its website and Booking.com's BookingSuite branded accommodation marketing and business analytics services. KAYAK recognizes advertising revenue primarily by sending referrals to online travel companies ("OTCs") and travel service providers and from advertising placements on its websites and mobile apps. Revenue related to referrals is recognized when a customer clicks on a referral placement or upon completion of the travel. Revenue for advertising placements is recognized based upon when a customer clicks on an advertisement or when KAYAK displays an advertisement. OpenTable recognizes reservation fees when diners are seated through its online restaurant reservation service and subscription fees for restaurant management services on a straight-line basis over the contractual period in accordance with how the service is provided.

Loyalty Programs

The Company provides various loyalty programs, where participating travelers or diners are awarded loyalty incentives on current transactions that can be redeemed for future qualifying reservations booked with the travel service provider through the Company's websites or mobile apps or, in the case of OpenTable, at participating restaurants. The estimated fair value of the incentives that are expected to be redeemed is recognized as a reduction of revenues at the time the incentives are granted. In the first quarter of 2018, OpenTable introduced a three-year time-based expiration for points earned by diners, which resulted in a reduction of a portion of the loyalty liability of approximately $27 million. At June 30, 2018 and December 31, 2017, liabilities of $80.6 million and $104.7 million, respectively, for loyalty incentives were included in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheets.

The Company uses the portfolio approach to account for its loyalty points as the rewards programs share similar characteristics within each program in relation to the value provided to the traveler or diner and their breakage patterns. Using this portfolio approach is not expected to differ materially from applying the guidance to individual contracts.

Disaggregation of revenue

Geographic Information

The Company's international information consists of the results of Booking.com, Rentalcars.com (which began operating as part of Booking.com on January 1, 2018) and agoda.com and the results of the international businesses of KAYAK and OpenTable. This classification is independent of where the consumer resides, where the consumer is physically located while using the Company's services or the location of the travel service provider or restaurant. For example, a reservation made through Booking.com at a hotel in New York by a consumer in the United States is part of the Company's international results. The Company's geographic information is as follows (in thousands):

		International		
Total revenues for the Three Months Ended June 30,	**United States**	**The Netherlands**	**Other**	**Total**
2018	$ 423,267 (1)	$ 2,706,702	$ 407,125	$ 3,537,094 (1)
2017	422,307 (2)	2,278,255	323,994	3,024,556 (2)

(1) Total revenues have been reduced for cost of revenues for NYOP transactions of $44.3 million in 2018.

(2) Total revenues have not been reduced for cost of revenues for NYOP transactions of $67.4 million in 2017.

		International		
Total revenues for the Six Months Ended June 30,	**United States**	**The Netherlands**	**Other**	**Total**
2018	$ 801,958 (1)	$ 4,829,426	$ 833,911	$ 6,465,295 (1)
2017	821,492 (2)	3,965,558	656,910	5,443,960 (2)

(1) Total revenues have been reduced for cost of revenues for NYOP transactions of $90.0 million in 2018.

(2) Total revenues have not been reduced for the cost of revenues for NYOP transactions of $147.8 million in 2017.

Revenue by Type of Service

Approximately 86% of the Company's revenue for both the three and six months ended June 30, 2018, respectively, relates to online accommodation reservation services. Revenue from all other sources of online travel reservation services or advertising and other revenues each represent less than 10% of the Company's total revenues.

Deferred Revenue

Cash payments received from travelers in advance of the Company completing its service obligations are included in "Deferred merchant bookings" in the Company's Unaudited Consolidated Balance Sheets and are comprised principally of amounts owed to the travel service providers as well as the Company's deferred revenue for its commission or margin and fees. At June 30, 2018 and December 31, 2017, deferred merchant bookings includes deferred revenue of $293.0 million and $151.2 million, respectively. The Company expects to complete its service obligation within one year of booking. In the six months ended June 30, 2018, the Company recognized revenue of $97.6 million and cancellations of $9.1 million related to the deferred revenue balance at December 31, 2017. In addition, the Company reduced the December 31, 2017 balance by $32.4 million for the impact of the adoption of the current revenue standard on January 1, 2018. The offsetting increase in the deferred revenue balance for the six months ended June 30, 2018 is principally driven by payments received from travelers, net of amounts payable to travel service providers, of $287.3 million for those online travel reservations in the current period.

3. STOCK-BASED EMPLOYEE COMPENSATION

Stock-based compensation expense included in personnel expenses in the Unaudited Consolidated Statements of Operations was approximately $74.5 million and $66.9 million for the three months ended June 30, 2018 and 2017, respectively, and $145.9 million and $125.8 million for the six months ended June 30, 2018 and 2017, respectively.

Stock-based compensation expense is recognized in the financial statements based upon fair value. Fair value is recognized as an expense on a straight-line basis over the employee's requisite service period and forfeitures are accounted for when they occur. The fair value of performance share units and restricted stock units is determined based on the number of units granted and the quoted price of the Company's common stock as of the grant date. Stock-based compensation expense related to performance share units reflects the estimated probable outcome at the end of the performance period. The fair value of employee stock options assumed in acquisitions was determined using the Black-Scholes model and the market value of the Company's common stock at the respective acquisition dates.

Restricted Stock Units and Performance Share Units

The following table summarizes the activity of restricted stock units and performance share units ("share-based awards") during the six months ended June 30, 2018:

Share-Based Awards	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2017	524,696	$ 1,431.88
Granted	153,637	$ 2,035.68
Vested	(184,648)	$ 1,277.74
Performance Shares Adjustment	12,676	$ 1,587.94
Forfeited/Canceled	(21,685)	$ 1,649.68
Unvested at June 30, 2018	484,676	$ 1,676.34

At June 30, 2018, there was $496.1 million of total future compensation cost related to unvested share-based awards to be recognized over a weighted-average period of 2.1 years.

During the six months ended June 30, 2018, the Company made broad-based grants of 103,916 restricted stock units that generally have a three-year vesting period, subject to certain exceptions for terminations other than for "cause," for "good reason" or on account of death or disability. These share-based awards had a total grant date fair value of $211.6 million based on a weighted-average grant date fair value per share of $2,036.58.

In addition, during the six months ended June 30, 2018, the Company granted 49,721 performance share units to executives and certain other employees. The performance share units had a total grant date fair value of $101.1 million based on a weighted-average grant date fair value per share of $2,033.79. The performance share units are payable in shares of the Company's common stock upon vesting. Subject to certain exceptions for terminations other than for "cause," for "good reason" or on account of death or disability, recipients of these performance share units generally must continue their service through the requisite service period in order to receive any shares. Stock-based compensation related to performance share units reflects the estimated probable outcome at the end of the performance period. The actual number of shares to be issued on the vesting date will be determined upon completion of the performance period, which generally ends December 31, 2020, assuming there is no accelerated vesting for, among other things, a termination of employment under certain circumstances. At June 30, 2018, the estimated number of probable shares to be issued is a total of 49,475 shares, net of performance share units that were forfeited or vested since the grant date. If the maximum performance thresholds are met at the end of the performance period, a maximum number of 98,950 total shares could be issued. If the minimum performance thresholds are not met, 38,165 shares would be issued at the end of the performance period.

2017 Performance Share Units

During the year ended December 31, 2017, the Company granted 73,893 performance share units with a grant date fair value of $128.2 million, based on a grant date fair value per share of $1,735.10. The actual number of shares to be issued will be determined upon completion of the performance period which generally ends December 31, 2019, assuming there is no accelerated vesting for, among other things, a termination of employment under certain circumstances.

At June 30, 2018, there were 64,769 unvested 2017 performance share units outstanding, net of performance share units that were forfeited or vested since the grant date. At June 30, 2018, the number of shares estimated to be issued pursuant to these performance share units at the end of the performance period is a total of 84,507 shares. If the maximum performance thresholds are met at the end of the performance period, a maximum of 129,538 total shares could be issued pursuant to these performance share units. If the minimum performance thresholds are not met, 51,512 shares would be issued at the end of the performance period.

2016 Performance Share Units

During the year ended December 31, 2016, the Company granted 85,735 performance share units with a grant date fair value of $111.7 million, based on a weighted-average grant date fair value per share of $1,302.25. The actual number of shares to be issued will be determined upon completion of the performance period which generally ends December 31, 2018.

At June 30, 2018, there were 66,270 unvested 2016 performance share units outstanding, net of performance share units that were forfeited or vested since the grant date. At June 30, 2018, the number of shares estimated to be issued pursuant to these performance share units at the end of the performance period is a total of 111,196 shares. If the maximum thresholds are met at the end of the performance period, a maximum of 148,953 total shares could be issued pursuant to these performance share units. If the minimum performance thresholds are not met, 39,498 shares would be issued at the end of the performance period.

Stock Options

All outstanding employee stock options were assumed in acquisitions. The following table summarizes the activity for stock options during the six months ended June 30, 2018:

Employee Stock Options	**Number of Shares**	**Weighted-Average Exercise Price**	**Aggregate Intrinsic Value (in thousands)**	**Weighted-Average Remaining Contractual Term (in years)**
Balance, December 31, 2017	30,675	$ 401.61	$ 40,986	3.9
Exercised	(2,770)	$ 480.63		
Forfeited	(13)	$ 241.83		
Balance, June 30, 2018	27,892	$ 393.92	$ 45,552	3.3
Vested and exercisable at June 30, 2018	27,819	$ 402.22	$ 45,492	3.3
Vested and exercisable at June 30, 2018 and expected to vest thereafter	27,892	$ 393.92	$ 45,552	3.3

The aggregate intrinsic value of employee stock options exercised during the six months ended June 30, 2018 and 2017 was $4.4 million and $16.8 million, respectively. During the six months ended June 30, 2018 and 2017, stock options vested for 98 and 954 shares, respectively.

4. NET INCOME PER SHARE

The Company computes basic net income per share by dividing net income applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is based upon the weighted-average number of common and common equivalent shares outstanding during the period.

Common equivalent shares related to stock options, restricted stock units, and performance share units are calculated using the treasury stock method. Performance share units are included in the weighted-average common equivalent shares based on the number of shares that would be issued if the end of the reporting period were the end of the performance period, if the result would be dilutive.

The Company's convertible notes have net share settlement features requiring the Company upon conversion to settle the principal amount of the debt for cash and the conversion premium for cash or shares of the Company's common stock, at the Company's option. The convertible notes are included in the calculation of diluted net income per share if their inclusion is dilutive under the treasury stock method.

A reconciliation of the weighted-average number of shares outstanding used in calculating diluted earnings per share is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted-average number of basic common shares outstanding	48,055	49,131	48,202	49,161
Weighted-average dilutive stock options, restricted stock units and performance share units	198	206	240	221
Assumed conversion of Convertible Senior Notes	297	719	435	667
Weighted-average number of diluted common and common equivalent shares outstanding	48,550	50,056	48,877	50,049
Anti-dilutive potential common shares	1,431	2,075	1,410	2,118

Anti-dilutive potential common shares for the three and six months ended June 30, 2018 include approximately 1.0 million shares that could be issued under the Company's outstanding convertible notes. Under the treasury stock method, the convertible notes will generally have an anti-dilutive impact on net income per share if the conversion prices for the convertible notes exceed the Company's average stock price.

5. INVESTMENTS

Short-term and Long-term Investments in Marketable Securities

The Company has classified its investments in marketable debt securities as available-for-sale securities. These securities are reported at estimated fair value with the aggregate unrealized gains and losses related to these investments, net of taxes, reflected as a part of "Accumulated other comprehensive income (loss)" in the Unaudited Consolidated Balance Sheets. Classification as short-term or long-term investment is based upon the maturity of the debt securities. As of June 30, 2018, the Company does not consider any of its investments to be other-than-temporarily impaired.

The Company's investments in marketable equity securities are reported at estimated fair value in the Unaudited Consolidated Balance Sheets. Pursuant to the adoption of the accounting update on financial instruments (see Note 1), for periods beginning after December 31, 2017, changes in fair value of the equity securities are recognized in net income rather than accumulated other comprehensive income. Therefore, the Company reclassified net unrealized gains of $298.7 million ($241.1 million net of tax) as of January 1, 2018 from "Accumulated other comprehensive income (loss)" to "Retained earnings" in the Unaudited Consolidated Balance Sheet. For the three and six months ended June 30, 2018, the Company recognized $21.8 million and $76.4 million, respectively, in "Net unrealized gains on marketable equity securities" in the Unaudited Consolidated Statements of Operations.

The following table summarizes, by major security type, the Company's investments in marketable securities at June 30, 2018 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments in marketable securities:				
Debt securities:				
International government securities	$ 409,205	$ 18	$ (341)	$ 408,882
U.S. government securities	873,082	2	(3,875)	869,209
Corporate debt securities	2,837,177	236	(13,466)	2,823,947
U.S. government agency securities	4,926	—	(20)	4,906
Commercial paper	37,808	—	—	37,808
Certificate of deposit	1,001	—	—	1,001
Total	$ 4,163,199	$ 256	$ (17,702)	$ 4,145,753
Long-term investments in marketable securities:				
Debt securities:				
International government securities	$ 805,579	$ 3,903	$ (191)	$ 809,291
U.S. government securities	467,280	7	(10,947)	456,340
Corporate debt securities	5,361,004	8,484	(67,317)	5,302,171
Investments in Ctrip:				
Convertible debt securities	1,275,000	125,538	(4,700)	1,395,838
Equity securities	655,311	375,048	—	1,030,359
Total	$ 8,564,174	$ 512,980	$ (83,155)	$ 8,993,999

The Company's investment policy seeks to preserve capital and maintain sufficient liquidity to meet operational and other needs of the business. At June 30, 2018, the weighted-average life of the Company’s fixed income investment portfolio, excluding the Company's investment in Ctrip convertible debt securities, was approximately 1.4 years with an average credit quality of A+/A1/A+.

The Company invests in international government securities with high credit quality. At June 30, 2018, investments in international government securities principally included debt securities issued by the governments of the Netherlands, France, Austria, Germany, and Belgium.

The following table summarizes, by major security type, the Company's investments in marketable securities at December 31, 2017 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments in marketable securities:				
Debt securities:				
International government securities	$ 725,566	$ 246	$ (436)	$ 725,376
U.S. government securities	996,112	5	(1,999)	994,118
Corporate debt securities	3,067,703	449	(4,837)	3,063,315
U.S. government agency securities	4,444	—	(30)	4,414
Commercial paper	72,650	—	—	72,650
Total	$ 4,866,475	$ 700	$ (7,302)	$ 4,859,873
Long-term investments in marketable securities:				
Debt securities:				
International government securities	$ 607,000	$ 1,588	$ (678)	$ 607,910
U.S. government securities	844,910	2	(10,636)	834,276
Corporate debt securities	6,689,747	8,399	(41,722)	6,656,424
U.S. government agency securities	500	—	(6)	494
Investments in Ctrip:				
Convertible debt securities	1,275,000	103,100	(9,600)	1,368,500
Equity securities	655,311	299,697	(1,012)	953,996
Total	$ 10,072,468	$ 412,786	$ (63,654)	$ 10,421,600

Investments in Ctrip

On May 26, 2015 and August 7, 2014, the Company invested $250 million and $500 million, respectively, in five-year senior convertible notes issued at par value by Ctrip. On December 11, 2015, the Company invested $500 million in a Ctrip ten-year senior convertible note issued at par value, which included a put option allowing the Company, at its option, to require a prepayment in cash from Ctrip at the end of the sixth year of the note. On September 12, 2016, the Company invested $25 million in a Ctrip six-year senior convertible note issued at par value, which included a put option allowing the Company, at its option, to require prepayment in cash from Ctrip at the end of the third year of the note. The Company determined that the economic characteristics and risks of the put option are clearly and closely related to the note, and therefore were not embedded derivatives.

The Company evaluated the conversion features for all Ctrip senior convertible notes and only the conversion feature associated with the September 2016 investment met the definition of an embedded derivative (see Note 6). The Company monitors the conversion features of these notes to determine whether they meet the definition of an embedded derivative during each reporting period. The Ctrip convertible notes have been marked-to-market in accordance with the accounting guidance for available-for-sale securities. At June 30, 2018, the Company had also invested $655.3 million in Ctrip American Depositary Shares ("ADSs").

In connection with the Company's investments in Ctrip's convertible notes, Ctrip granted the Company the right to appoint an observer to its board of directors and permission to acquire its shares (through the acquisition of Ctrip ADSs in the open market) so that combined with ADSs issuable upon conversion of the August 2014, May 2015 and September 2016 convertible notes, the Company could hold up to an aggregate of approximately 15% of Ctrip's outstanding equity plus any ADSs issuable upon the conversion of the December 2015 convertible notes. At June 30, 2018, the Company did not have significant influence over Ctrip.

Long-term Equity Investments without Readily Determinable Fair Value

The Company holds investments in equity securities of private companies, which are typically at an early stage of development, of $450.9 million at June 30, 2018 and December 31, 2017. In 2017, the Company invested $450 million in preferred shares of Meituan Dianping, the leading e-commerce platform for local services in China. These investments are measured 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 and are included in "Long-term investments" in the Company's Unaudited Consolidated Balance Sheets. There were no identified events or changes in circumstances to indicate a change in the carrying value of these investments at June 30, 2018.

In July 2018, the Company invested $500 million in preferred shares of Didi Chuxing, the leading mobile transportation and ride-hailing platform in China.

6. FAIR VALUE MEASUREMENTS

Financial assets and liabilities carried at fair value at June 30, 2018 are classified in the categories described in the tables below (in thousands):

	Level 1	Level 2	Total
ASSETS:			
Cash and restricted cash equivalents:			
Money market funds	$ 2,673,212	$ —	$ 2,673,212
U.S. government securities	—	9,973	9,973
Corporate debt securities	—	5,268	5,268
Commercial paper	—	28,490	28,490
U.S. government agency securities	—	1,000	1,000
Time deposits	7,983	—	7,983
Short-term investments in marketable securities:			
International government securities	—	408,882	408,882
U.S. government securities	—	869,209	869,209
Corporate debt securities	—	2,823,947	2,823,947
U.S. government agency securities	—	4,906	4,906
Commercial paper	—	37,808	37,808
Certificate of deposit	1,001	—	1,001
Long-term investments in marketable securities:			
International government securities	—	809,291	809,291
U.S. government securities	—	456,340	456,340
Corporate debt securities	—	5,302,171	5,302,171
Ctrip convertible debt securities	—	1,395,838	1,395,838
Ctrip equity securities	1,030,359	—	1,030,359
Derivatives:			
Currency exchange derivatives	—	318	318
Total assets at fair value	$ 3,712,555	$ 12,153,441	$ 15,865,996

	Level 1	Level 2	Total
LIABILITIES:			
Currency exchange derivatives	$ —	$ 2,036	$ 2,036

Financial assets and liabilities carried at fair value at December 31, 2017 are classified in the categories described in the tables below (in thousands):

	Level 1	Level 2	Total
ASSETS:			
Cash and restricted cash equivalents:			
Money market funds	$ 1,895,272	$ —	$ 1,895,272
U.S. government securities	—	22,265	22,265
Corporate debt securities	—	6,674	6,674
Commercial paper	—	96,321	96,321
Time deposits	17,896	—	17,896
Short-term investments in marketable securities:			
International government securities	—	725,376	725,376
U.S. government securities	—	994,118	994,118
Corporate debt securities	—	3,063,315	3,063,315
U.S. government agency securities	—	4,414	4,414
Commercial paper	—	72,650	72,650
Long-term investments in marketable securities:			
International government securities	—	607,910	607,910
U.S. government securities	—	834,276	834,276
Corporate debt securities	—	6,656,424	6,656,424
U.S. government agency securities	—	494	494
Ctrip convertible debt securities	—	1,368,500	1,368,500
Ctrip equity securities	953,996	—	953,996
Derivatives:			
Currency exchange derivatives	—	1,767	1,767
Total assets at fair value	$ 2,867,164	$ 14,454,504	$ 17,321,668

	Level 1	Level 2	Total
LIABILITIES:			
Currency exchange derivatives	$ —	$ 127	$ 127

There are three levels of inputs to measure fair value. The definition of each input is described below:

Level 1: Quoted prices in active markets that are accessible by the Company at the measurement date for identical assets and liabilities.

Level 2: Inputs that are observable, either directly or indirectly. Such prices may be based upon quoted prices for identical or comparable securities in active markets or inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

Investments in corporate debt securities, U.S. and international government securities, commercial paper, government agency securities and convertible debt securities are considered "Level 2" valuations because the Company has access to quoted prices, but does not have visibility into the volume and frequency of trading for all of these investments. For the Company's investments, a market approach is used for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

The Company's derivative instruments are valued using pricing models. Pricing models take into account the contract terms as well as multiple inputs where applicable, such as interest rate yield curves, option volatility and currency rates. Derivatives are considered "Level 2" fair value measurements. The Company's derivative instruments are typically short-term in nature.

At June 30, 2018 and December 31, 2017, the Company's cash consisted of bank deposits. Other financial assets and liabilities, including restricted cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and deferred merchant bookings, are carried at cost which approximates their fair value because of the short-term nature of these items. At June 30, 2018 and December 31, 2017, the Company held investments in equity securities of private companies of $450.9 million and these investments are accounted for under the cost method of accounting (see Note 5). See Note 5 for information on the carrying value of the Company's investments in marketable securities, Note 8 for the estimated fair value of the Company's outstanding Senior Notes and Note 12 for the Company's contingent liabilities associated with business acquisitions.

In the normal course of business, the Company is exposed to the impact of foreign currency fluctuations. The Company mitigates these risks by following established risk management policies and procedures, including the use of derivatives. The Company does not use derivatives for trading or speculative purposes. All derivative instruments are recognized in the Unaudited Consolidated Balance Sheets at fair value. Gains and losses resulting from changes in the fair value of derivative instruments that are not designated as hedging instruments for accounting purposes are recognized in the Unaudited Consolidated Statements of Operations in the period that the changes occur. Changes in the fair value of derivatives designated as net investment hedges were recorded as foreign currency translation adjustments to offset a portion of the foreign currency translation adjustment from Euro-denominated net assets held by certain subsidiaries and were recognized in the Unaudited Consolidated Balance Sheets in "Accumulated other comprehensive income (loss)."

Derivatives Not Designated as Hedging Instruments — The Company is exposed to adverse movements in currency exchange rates as the operating results of its international operations are translated from local currency into U.S. Dollars upon consolidation. The Company enters into average-rate derivative contracts to hedge translation risks from short-term currency exchange rate fluctuations for the Euro, British Pound Sterling and certain other currencies versus the U.S. Dollar. At June 30, 2018 and December 31, 2017, there were no outstanding derivative contracts related to foreign currency translation risks.

The Company also enters into foreign currency forward contracts to hedge its exposure to the impact of movements in currency exchange rates on its transactional balances denominated in currencies other than the functional currency. Derivative assets are included in "Prepaid expenses and other current assets" and derivative liabilities are included in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheets. Derivatives associated with these transaction risks resulted in foreign currency losses of $50.2 million and $29.6 million for the three and six months ended June 30, 2018, respectively, compared to foreign currency gains of $20.8 million and $27.6 million for the three and six months ended June 30, 2017, respectively. These mark-to-market adjustments on the derivative contracts, offset by the effect of changes in currency exchange rates on transactions denominated in currencies other than the functional currency, resulted in net losses of $11.8 million and $17.2 million for the three and six months ended June 30, 2018, respectively, and net losses of $5.1 million and $11.0 million for the three and six months ended June 30, 2017, respectively. The net impacts related to these derivatives are reported in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

The settlement of derivative contracts not designated as hedging instruments resulted in net cash outflows of $30.2 million and net cash inflows of $23.1 million for the six months ended June 30, 2018 and 2017, respectively, and are reported within "Net cash provided by operating activities" in the Unaudited Consolidated Statements of Cash Flows.

Embedded Derivative — In September 2016, the Company invested $25 million in a Ctrip convertible note (see Note 5). The Company determined that the conversion option for this note met the definition of an embedded derivative. At June 30, 2018 and December 31, 2017, the embedded derivative had an estimated fair value of $1.7 million and $1.8 million, respectively, and is reported in the Unaudited Consolidated Balance Sheets with its host contract in "Long-term investments." The embedded derivative is bifurcated for measurement purposes only. The mark-to-market adjustments are included in "Foreign currency transactions and other" in the Company's Unaudited Consolidated Statements of Operations.

7. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at June 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	June 30, 2018			December 31, 2017				
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period	Weighted-Average Useful Life
Supply and distribution agreements	$ 1,084,719	$ (382,281)	$ 702,438	$ 1,056,660	$ (355,000)	$ 701,660	3 - 20 years	16 years
Technology	171,698	(114,680)	57,018	137,288	(104,478)	32,810	1 - 7 years	5 years
Patents	1,623	(1,623)	—	1,623	(1,623)	—	15 years	15 years
Internet domain names	41,112	(29,330)	11,782	42,265	(28,802)	13,463	5 - 20 years	8 years
Trade names	1,786,387	(395,009)	1,391,378	1,779,076	(350,447)	1,428,629	4-20 years	19 years
Non-compete agreements	21,900	(21,750)	150	21,900	(21,639)	261	3-4 years	3 years
Total intangible assets	$ 3,107,439	$ (944,673)	$ 2,162,766	$ 3,038,812	$ (861,989)	$ 2,176,823		

Intangible assets are amortized on a straight-line basis. Amortization expense was approximately $45.7 million and $92.3 million for the three and six months ended June 30, 2018, respectively, and $41.2 million and $84.2 million for the three and six months ended June 30, 2017, respectively.

The amortization expense for intangible assets for the remainder of 2018 and the annual expense for the next five years and thereafter is expected to be as follows (in thousands):

Remainder of 2018	$ 85,753
2019	168,793
2020	160,962
2021	154,945
2022	152,191
2023	150,181
Thereafter	1,289,941
	$ 2,162,766

A roll-forward of goodwill for the six months ended June 30, 2018 consisted of the following (in thousands):

Balance at December 31, 2017	$ 2,737,671
Acquisition	131,583
Currency translation adjustments	(18,858)
Balance at June 30, 2018	$ 2,850,396

A substantial portion of the Company's intangibles and goodwill relates to the acquisitions of OpenTable in July 2014 and KAYAK in May 2013. There were no events or changes in circumstances to indicate a potential impairment to goodwill or intangible assets at June 30, 2018.

Acquisition

In April 2018, the Company paid $139.4 million, net of cash acquired, and issued shares of the Company's common stock in the amount of $110.4 million in connection with an acquisition of a local activities and experiences booking software provider. In respect of the shares issued, as shown in the supplemental disclosure in the Unaudited Consolidated Statement of Cash Flows, $59.7 million relates to purchase price consideration and $50.7 million relates to shares restricted for trading purposes until the required post-acquisition services are completed by certain employees. At June 30, 2018, the Company's Unaudited Consolidated Balance Sheet includes approximately $17 million in "Prepaid expenses and other current assets" and approximately $31 million in "Other assets" related to this deferred compensation charge associated with these restricted shares.

8. DEBT

Short-term Borrowing

On June 30, 2018, the Company had a bank overdraft of $3.0 million, which was reported in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet at June 30, 2018 and was repaid in July 2018.

Revolving Credit Facility

In June 2015, the Company entered into a $2.0 billion five-year unsecured revolving credit facility with a group of lenders. Borrowings under the revolving credit facility will bear interest, at the Company’s option, at a rate per annum equal to either (i) the adjusted LIBOR for the interest period in effect for such borrowing plus an applicable margin ranging from 0.875% to 1.50%; or (ii) the greatest of (a) Bank of America, N.A.'s prime lending rate, (b) the federal funds rate plus 0.50%, and (c) an adjusted LIBOR for an interest period of one month plus 1.00%, plus an applicable margin ranging from 0.00% to 0.50%. Undrawn balances available under the revolving credit facility are subject to commitment fees at the applicable rate ranging from 0.085% to 0.20%.

The revolving credit facility provides for the issuance of up to $70.0 million of letters of credit as well as borrowings of up to $50.0 million on same-day notice, referred to as swingline loans. Borrowings under the revolving credit facility may be made in U.S. Dollars, Euros, British Pounds Sterling and any other foreign currency agreed to by the lenders. The proceeds of loans made under the facility would be used for working capital and general corporate purposes, which could include acquisitions, share repurchases or debt repayments. There were no borrowings outstanding and $3.8 million of letters of credit issued under the facility at June 30, 2018 and December 31, 2017.

Outstanding Debt

Outstanding debt at June 30, 2018 consisted of the following (in thousands):

June 30, 2018	Outstanding Principal Amount	Unamortized Debt Discount and Debt Issuance Cost	Carrying Value
Short-term debt:			
0.35% Convertible Senior Notes due June 2020	$ 1,000,000	$ (51,810)	$ 948,190
Long-term debt:			
0.9% Convertible Senior Notes due September 2021	$ 1,000,000	$ (72,363)	$ 927,637
0.8% (€1 Billion) Senior Notes due March 2022	1,167,550	(5,448)	1,162,102
2.15% (€750 Million) Senior Notes due November 2022	875,663	(4,167)	871,496
2.75% Senior Notes due March 2023	500,000	(2,899)	497,101
2.375% (€1 Billion) Senior Notes due September 2024	1,167,550	(11,172)	1,156,378
3.65% Senior Notes due March 2025	500,000	(3,070)	496,930
3.6% Senior Notes due June 2026	1,000,000	(6,447)	993,553
1.8% (€1 Billion) Senior Notes due March 2027	1,167,550	(4,849)	1,162,701
3.55% Senior Notes due March 2028	500,000	(3,318)	496,682
Total long-term debt	$ 7,878,313	$ (113,733)	$ 7,764,580

Outstanding debt at December 31, 2017 consisted of the following (in thousands):

December 31, 2017	Outstanding Principal Amount	Unamortized Debt Discount and Debt Issuance Cost	Carrying Value
Short-term debt:			
1.0% Convertible Senior Notes due March 2018	$ 714,304	$ (3,394)	$ 710,910
Long-term debt:			
0.35% Convertible Senior Notes due June 2020	$ 1,000,000	$ (64,825)	$ 935,175
0.9% Convertible Senior Notes due September 2021	1,000,000	(83,272)	916,728
0.8% (€1 Billion) Senior Notes due March 2022	1,200,800	(6,238)	1,194,562
2.15% (€750 Million) Senior Notes due November 2022	900,600	(4,683)	895,917
2.75% Senior Notes due March 2023	500,000	(3,203)	496,797
2.375% (€1 Billion) Senior Notes due September 2024	1,200,800	(12,240)	1,188,560
3.65% Senior Notes due March 2025	500,000	(3,290)	496,710
3.6% Senior Notes due June 2026	1,000,000	(6,840)	993,160
1.8% (€1 Billion) Senior Notes due March 2027	1,200,800	(5,136)	1,195,664
3.55% Senior Notes due March 2028	500,000	(3,485)	496,515
Total long-term debt	$ 9,003,000	$ (193,212)	$ 8,809,788

Based upon the closing price of the Company's common stock for the prescribed measurement period for the three months ended June 30, 2018, the contingent conversion threshold on the 2020 Notes (as defined below) was exceeded. Therefore, the 2020 Notes are currently convertible at the option of the holders and, accordingly, the Company reported the carrying value of the 2020 Notes as a current liability in the Company's Unaudited Consolidated Balance Sheet at June 30, 2018. Since these notes are convertible at the option of the holders and the principal amount is required to be paid in cash, the Company reclassified the unamortized debt discount for the 2020 Notes in the amount of $45.6 million before tax at June 30, 2018, from additional paid-in-capital to convertible debt in the mezzanine section in the Company's Unaudited Consolidated Balance Sheet. The contingent conversion threshold on the 2020 Notes was not exceeded at December 31, 2017, therefore, the 2020 Notes were reported as non-current liabilities in the Consolidated Balance Sheet as of that date. The determination of whether the 2020 Notes are convertible is performed on a quarterly basis. Consequently, the 2020 Notes may not be convertible in future quarters, and therefore, may again be classified as long-term debt, if the contingent conversion threshold is not met in such quarters.

The 2018 Notes (as defined below) became convertible on December 15, 2017, at the option of the holders, and remained convertible until the scheduled trading day immediately preceding the maturity date of March 15, 2018. Therefore, at December 31, 2017, the Company reported the carrying value of the 2018 Notes as a current liability and reclassified the unamortized debt discount for the 2018 Notes in the amount of $3.0 million before tax from additional paid-in-capital to convertible debt in the mezzanine section in the Consolidated Balance Sheet as of that date.

The contingent conversion threshold on the 2021 Notes (as defined below) was not exceeded at June 30, 2018 or December 31, 2017, and therefore these notes were reported as a non-current liability in the Unaudited Consolidated Balance Sheets.

Fair Value of Debt

At June 30, 2018 and December 31, 2017, the estimated fair value of the outstanding Senior Notes was approximately $9.7 billion and $11.1 billion, respectively, and was considered a "Level 2" fair value measurement (see Note 6). Fair value was estimated based upon actual trades at the end of the reporting period or the most recent trade available as well as the Company's stock price at the end of the reporting period. A substantial portion of the market value of the Company's debt in excess of the outstanding principal amount relates to the conversion premium on the Convertible Senior Notes.

Convertible Debt

If the note holders exercise their option to convert, the Company delivers cash to repay the principal amount of the notes and delivers shares of common stock or cash, at its option, to satisfy the conversion value in excess of the principal amount. If the Company's convertible debt is redeemed or converted prior to maturity, a gain or loss on extinguishment is recognized. The gain or loss is the difference between the fair value of the debt component immediately prior to extinguishment and its carrying value. To estimate the fair value of the debt at the conversion date, the Company estimated its straight debt borrowing rate, considering its credit rating and straight debt of comparable corporate issuers.

Description of Senior Convertible Notes

In August 2014, the Company issued in a private placement $1.0 billion aggregate principal amount of Convertible Senior Notes due September 15, 2021, with an interest rate of 0.9% (the "2021 Notes"). The Company paid $11.0 million in debt issuance costs during the year ended December 31, 2014 related to this offering. The 2021 Notes are convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately $2,055.50 per share. The 2021 Notes are convertible, at the option of the holder, prior to September 15, 2021, upon the occurrence of specific events, including but not limited to a change in control, or if the closing sales price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 150% of the conversion price in effect for the notes on the last trading day of the immediately preceding quarter. In the event that all or substantially all of the Company's common stock is acquired on or prior to the maturity of the 2021 Notes in a transaction in which the consideration paid to holders of the Company's common stock consists of all or substantially all cash, the Company would be required to make additional payments in the form of additional shares of common stock to the holders of the 2021 Notes in an aggregate value ranging from $0 to approximately $375 million depending upon the date of the transaction and the then current stock price of the Company. At June 15, 2021, holders will have the right to convert all or any portion of the 2021 Notes, regardless of the Company's stock price. The 2021 Notes may not be redeemed by the Company prior to maturity. The holders may require the Company to repurchase the 2021 Notes for cash in certain circumstances. Interest on the 2021 Notes is payable on March 15 and September 15 of each year.

In May 2013, the Company issued in a private placement $1.0 billion aggregate principal amount of Convertible Senior Notes due June 15, 2020, with an interest rate of 0.35% (the "2020 Notes"). The 2020 Notes were issued with an initial discount of $20.0 million. The Company paid $1.0 million in debt issuance costs during the year ended December 31, 2013 related to this offering. The 2020 Notes are convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately $1,315.10 per share. The 2020 Notes are convertible, at the option of the holder, prior to June 15, 2020, upon the occurrence of specific events, including but not limited to a change in control, or if the closing sales price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 150% of the conversion price in effect for the notes on the last trading day of the immediately preceding quarter. In the event that all or substantially all of the Company's common stock is acquired on or prior to the maturity of the 2020 Notes in a transaction in which the consideration paid to holders of the Company's common stock consists of all or substantially all cash, the Company would be required to make additional payments in the form of additional shares of common stock to the holders of the 2020 Notes in an aggregate value ranging from $0 to approximately $397 million depending upon the date of the transaction and the then current stock price of the Company. As of March 15, 2020, holders will have the right to convert all or any portion of the 2020 Notes, regardless of the Company's stock price. The 2020 Notes may not be redeemed by the Company prior to maturity. The holders may require the Company to repurchase the 2020 Notes for cash in certain circumstances. Interest on the 2020 Notes is payable on June 15 and December 15 of each year.

In March 2012, the Company issued in a private placement $1.0 billion aggregate principal amount of Convertible Senior Notes due March 15, 2018, with an interest rate of 1.0% (the "2018 Notes"). The 2018 Notes were convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately $944.61 per share. For the three months ended March 31, 2018, in connection with the maturity of the remaining outstanding 2018 Notes, the Company paid $714.3 million to satisfy the aggregate principal amount due and paid an additional $773.2 million in satisfaction of the conversion value in excess of the principal amount.

Cash-settled convertible debt, such as the Company's Convertible Senior Notes, is separated into debt and equity components at issuance and each component is assigned a value. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. Debt discount is amortized using the effective interest rate method over the period from the origination date through the stated maturity date. The Company estimated the straight debt borrowing rates at debt origination to be 3.18% for the 2021 Notes, 3.13% for the 2020 Notes, and 3.50% for the 2018 Notes. The yield to maturity was estimated at an at-market coupon priced at par.

Debt discount after tax of $82.5 million ($142.9 million before tax) less financing costs associated with the equity component of convertible debt of $1.6 million after tax was recorded in additional paid-in capital related to the 2021 Notes at December 31, 2014. Debt discount after tax of $92.4 million ($154.3 million before tax) less financing costs associated with the equity component of convertible debt of $0.1 million after tax was recorded in additional paid-in capital related to the 2020 Notes at June 30, 2013. Debt discount after tax of $80.9 million ($135.2 million before tax) less financing costs associated with the equity component of convertible debt of $2.8 million after tax was recorded in additional paid-in capital related to the 2018 Notes at March 31, 2012.

For the three months ended June 30, 2018 and 2017, the Company recognized interest expense of $15.2 million and $24.0 million, respectively, related to convertible notes, which was comprised of $3.2 million and $5.4 million, respectively, related to the contractual coupon interest, $11.6 million and $17.3 million, respectively, related to the amortization of debt discount and $0.4 million and $1.3 million, respectively, related to the amortization of debt issuance costs. For the three months ended June 30, 2018 and 2017, included in the amortization of debt discount mentioned above was $0.8 million and $0.7 million, respectively, of original issuance discount related to the 2020 Notes. The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity date for the respective debt. The weighted-average effective interest rates for the three months ended June 30, 2018 and 2017 are 3.2% and 3.5%, respectively.

For the six months ended June 30, 2018 and 2017, the Company recognized interest expense of $35.0 million and $48.0 million, respectively, related to convertible notes, which was comprised of $7.7 million and $11.0 million, respectively, related to the contractual coupon interest, $26.1 million and $34.5 million, respectively, related to the amortization of debt discount and $1.2 million and $2.5 million respectively, related to the amortization of debt issuance costs. For the six months ended June 30, 2018 and 2017, included in the amortization of debt discount mentioned above was $1.5 million and $1.4 million, respectively, of original issuance discount related to the 2020 Notes. The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity date for the respective debt. The weighted-average effective interest rates for the six months ended June 30, 2018 and 2017 are 3.2% and 3.5%, respectively.

Other Long-term Debt

In August 2017, the Company issued Senior Notes due March 15, 2023, with an interest rate of 2.75% (the "2023 Notes") for an aggregate principal amount of $500 million. The 2023 Notes were issued with an initial discount of $0.7 million. In addition, the Company paid $2.7 million in debt issuance costs during the year ended December 31, 2017. Interest on the 2023 Notes is payable semi-annually on March 15 and September 15.

In August 2017, the Company issued Senior Notes due March 15, 2028, with an interest rate of 3.55% (the "2028 Notes") for an aggregate principal amount of $500 million. The 2028 Notes were issued with an initial discount of $0.4 million. In addition, the Company paid $3.2 million in debt issuance costs during the year ended December 31, 2017. Interest on the 2028 Notes is payable semi-annually on March 15 and September 15.

In March 2017, the Company issued Senior Notes due March 10, 2022, with an interest rate of 0.8% (the "March 2022 Notes") for an aggregate principal amount of 1.0 billion Euros. The March 2022 Notes were issued with an initial discount of 2.1 million Euros. In addition, the Company paid $5.0 million in debt issuance costs during the year ended December 31, 2017. Interest on the March 2022 Notes is payable annually on March 10. Subject to certain limited exceptions, all payments of interest and principal for the March 2022 Notes will be made in Euros.

In May 2016, the Company issued Senior Notes due June 1, 2026, with an interest rate of 3.6% (the "2026 Notes") for an aggregate principal amount of $1.0 billion. The 2026 Notes were issued with an initial discount of $1.9 million. In addition, the Company paid $6.2 million in debt issuance costs during the year ended December 31, 2016. Interest on the 2026 Notes is payable semi-annually on June 1 and December 1.

In November 2015, the Company issued Senior Notes due November 25, 2022, with an interest rate of 2.15% (the "November 2022 Notes") for an aggregate principal amount of 750 million Euros. The November 2022 Notes were issued with an initial discount of 2.2 million Euros. In addition, the Company paid $3.7 million in debt issuance costs during the year ended December 31, 2015. Interest on the November 2022 Notes is payable annually on November 25. Subject to certain limited exceptions, all payments of interest and principal, including payments made upon any redemption of the November 2022 Notes will be made in Euros.

In March 2015, the Company issued Senior Notes due March 15, 2025, with an interest rate of 3.65% (the "2025 Notes") for an aggregate principal amount of $500 million. The 2025 Notes were issued with an initial discount of $1.3 million. In addition, the Company paid $3.2 million in debt issuance costs during the year ended December 31, 2015. Interest on the 2025 Notes is payable semi-annually on March 15 and September 15.

In March 2015, the Company issued Senior Notes due March 3, 2027, with an interest rate of 1.8% (the "2027 Notes") for an aggregate principal amount of 1.0 billion Euros. The 2027 Notes were issued with an initial discount of 0.3 million Euros. In addition, the Company paid $6.3 million in debt issuance costs during the year ended December 31, 2015. Interest on the 2027 Notes is payable annually on March 3. Subject to certain limited exceptions, all payments of interest and principal for the 2027 Notes will be made in Euros.

In September 2014, the Company issued Senior Notes due September 23, 2024, with an interest rate of 2.375% (the "2024 Notes") for an aggregate principal amount of 1.0 billion Euros. The 2024 Notes were issued with an initial discount of 9.4 million Euros. In addition, the Company paid $6.5 million in debt issuance costs during the year ended December 31, 2014. Interest on the 2024 Notes is payable annually on September 23. Subject to certain limited exceptions, all payments of interest and principal, including payments made upon any redemption of the 2024 Notes, will be made in Euros.

The aggregate principal value of the March 2022 Notes, November 2022 Notes, 2024 Notes and 2027 Notes and accrued interest thereon are designated as a hedge of the Company's net investment in certain Euro functional currency subsidiaries. The foreign currency transaction gains or losses on these liabilities are measured based upon changes in spot rates and are recorded in "Accumulated other comprehensive income (loss)" in the Unaudited Consolidated Balance Sheets. The Euro-denominated net assets of these subsidiaries are translated into U.S. Dollars at each balance sheet date, with the effects of foreign currency changes also reported in "Accumulated other comprehensive income (loss)" in the Unaudited Consolidated Balance Sheets. Since the notional amount of the recorded Euro-denominated debt and related interest are not greater than the notional amount of the Company's net investment, the Company does not expect to incur any ineffectiveness on this hedge.

Debt discount is amortized using the effective interest rate method over the period from the origination date through the stated maturity date. The Company estimated the effective interest rates at debt origination to be 2.78% for the 2023 Notes, 3.56% for the 2028 Notes, 0.84% for the March 2022 Notes, 3.62% for the 2026 Notes, 2.20% for the November 2022 Notes, 3.68% for the 2025 Notes, 1.80% for the 2027 Notes and 2.48% for the 2024 Notes.

For the three months ended June 30, 2018 and 2017, the Company recognized interest expense of $42.8 million and $33.1 million, respectively, related to other long-term debt, which was almost entirely comprised of $41.1 million and $31.7 million, respectively, related to the contractual coupon interest. The remaining interest expense relates to the amortization of debt discount and debt issuance costs. The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity dates for the respective debt.

For the six months ended June 30, 2018 and 2017, the Company recognized interest expense of $86.1 million and $63.7 million, respectively, related to other long-term debt, which was principally comprised of $82.7 million and $61.2 million, respectively, related to the contractual coupon interest. The remaining interest expense relates to the amortization of debt discount and debt issuance costs. The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity dates for the respective debt.

In March 2016, the Company received a ten-year loan from the State of Connecticut in the amount of $2.5 million with an interest rate of 1% in connection with the construction of office space in Connecticut. In 2017, $1.0 million of the loan was forgiven as a result of meeting certain employment and salary conditions. The remaining balance of the loan will be forgiven in 2019 if certain employment and salary conditions are met. At June 30, 2018 and December 31, 2017, the loan in the amount of $1.5 million is reported in "Other long-term liabilities" in the Unaudited Consolidated Balance Sheets.

9. TREASURY STOCK

At December 31, 2017, the Company had a total remaining authorization of $2.4 billion to repurchase its common stock related to programs authorized by the Company's Board of Directors in 2016 and 2017 for $3.0 billion and $2.0 billion, respectively. In the first quarter of 2018, the Company's Board of Directors authorized an additional program to repurchase up to $8.0 billion of the Company's common stock. At June 30, 2018, the Company had a remaining authorization of $8.6 billion to repurchase its common stock. The Company may make repurchases of shares under its stock repurchase programs, depending on prevailing market conditions, alternate uses of capital and other factors. Whether and when to initiate and/or complete any repurchase of common stock and the amount of common stock repurchased will be determined at the Company's discretion. Additionally, the Board of Directors has given the Company the general authorization to repurchase shares of its common stock to satisfy employee withholding tax obligations related to stock-based compensation.

In the six months ended June 30, 2018, the Company repurchased a total of 945,693 shares of its common stock in the open market for an aggregate cost of $1.9 billion, which included 873,986 shares for $1.8 billion acquired through its general repurchase programs and 71,707 shares for $146.3 million withheld to satisfy employee withholding tax obligations related to stock-based compensation.

In the six months ended June 30, 2017, the Company repurchased a total of 312,518 shares of its common stock in the open market for an aggregate cost of $556.2 million, which included 261,552 shares for $467.6 million acquired through its general repurchase programs and 50,966 shares for $88.6 million withheld to satisfy employee withholding tax obligations related to stock-based compensation.

In the three months ended June 30, 2018, stock repurchases in June 2018 of 28,241 shares for an aggregate cost of $57.0 million were settled in July 2018. In the three months ended December 31, 2017, stock repurchases in December 2017 of 18,217 shares for an aggregate cost of $32.0 million were settled in January 2018.

For the six months ended June 30, 2018 and 2017, the Company remitted $145.0 million and $86.5 million of employee withholding taxes, respectively, to the tax authorities, which is different from the aggregate cost of the shares withheld for taxes for each period due to the timing in remitting the taxes. The cash remitted to the tax authorities is included in financing activities in the Unaudited Consolidated Statements of Cash Flows.

At June 30, 2018, there were 15,162,512 shares of the Company's common stock held in treasury.

10. INCOME TAXES

Income tax expense consists of U.S. and international income taxes, determined using an estimate of the Company's annual effective tax rate, which is based upon the applicable tax rates and tax laws of the countries in which the income is generated. A deferred tax liability is recognized for all taxable temporary differences, and a deferred tax asset is recognized for all deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company considers many factors when assessing the likelihood of future realization of the deferred tax assets, including its recent cumulative earnings experience by taxing jurisdiction, expectations of future income, tax planning strategies, the carryforward periods available for tax reporting purposes, and other relevant factors.

The Company's effective tax rate for both the three and six months ended June 30, 2018 was 19.2%, compared to 16.6% and 15.5% for the three and six months ended June 30, 2017, respectively. The Company's 2018 effective tax rates differ from the 2018 U.S. federal statutory tax rate of 21%, primarily due to the benefit of the Netherlands Innovation Box Tax (discussed below), U.S. state tax rate changes that resulted in a net decrease to deferred tax liabilities associated with acquired intangible assets, and current year excess tax benefits of $1.0 million and $14.5 million for the three and six months ended June 30, 2018, respectively, recognized from the vesting of equity awards, partially offset by the effect of higher international tax rates and U.S. federal and state tax associated with the Company's current year international earnings, resulting from the introduction of the Tax Act. The Company's 2017 effective tax rates differ from the 2017 U.S. federal statutory tax rate of 35%, primarily as a result of lower international tax rates and current year excess tax benefits of $2.7 million and $12.6 million for the three and six months ended June 30, 2017, respectively, recognized from the vesting of equity awards, partially offset by certain nondeductible expenses.

The Company's effective tax rates were higher for the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017, primarily as a result of U.S. federal and state tax associated with the Company's current year international earnings, resulting from the introduction of the Tax Act, and the increase in the Netherlands Innovation Box Tax rate from 5% to 7% as discussed below.

During the three and six months ended June 30, 2018 and 2017, a substantial majority of the Company's income was generated in the Netherlands. According to Dutch corporate income tax law, income generated from qualifying innovative activities is taxed at a rate of 7% ("Innovation Box Tax") for periods beginning on or after January 1, 2018 rather than the Dutch statutory rate of 25%. Previously, the Innovation Box Tax rate had been 5%. A portion of Booking.com's earnings during the three and six months ended June 30, 2018 and 2017 qualified for Innovation Box Tax treatment, which had a significant beneficial impact on the Company's effective tax rate for those periods.

U.S. Tax Reform

On December 22, 2017, the Tax Act was enacted into law in the United States. The Tax Act made significant changes to U.S. federal tax law, including a reduction in the U.S. federal statutory tax rate from 35% to 21%, effective January 1, 2018. The Tax Act imposed a one-time deemed repatriation tax on accumulated unremitted international earnings, to be paid over eight years. The Company recorded provisional income tax expense of approximately $1.6 billion during the year ended December 31, 2017, which included U.S. state income taxes and international withholding taxes, related to the mandatory deemed repatriation of estimated accumulated international earnings of approximately $16.5 billion. The Company also recorded a provisional net income tax benefit of approximately $217.0 million during the year ended December 31, 2017 related to the remeasurement of the Company's U.S. deferred tax assets and liabilities due to the reduction of the U.S. federal statutory rate from 35% to 21%. The Company currently expects to use approximately $204 million of deferred tax assets related to federal net operating loss carryforwards ("NOLs") and approximately $46 million of other tax credit carryforwards, and accordingly reduced the transition tax liability to approximately $1.3 billion at December 31, 2017. At June 30, 2018, the remaining liability of $1.2 billion includes $1.1 billion in "Long-term U.S. transition tax liability" and approximately $93 million in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet.

At June 30, 2018, the Company had not completed its accounting for the tax effects of the Tax Act that were recorded as provisional during the year ended December 31, 2017 in accordance with Staff Accounting Bulletin No. 118 ("SAB 118"). The Company is continuing to analyze its accumulated unremitted international earnings subject to the U.S. federal deemed repatriation tax. This analysis includes a review of income tax returns, some of which are not yet due. In addition, the Company is still evaluating whether and to what extent it will utilize its NOLs against the transition tax liability, which may impact the Company's U.S. deferred tax assets and liabilities. As the Company refines its estimates and continues to evaluate the Tax Act, the Company will adjust its provision for income taxes in the period when a change in estimate occurs. The Company's final accounting for the tax effects of the Tax Act may materially differ from the provisional amounts recorded during the year ended December 31, 2017 as a result of regulatory guidance that may be issued and changes in our assumptions and interpretations based on this guidance. The Company expects to complete its accounting within the measurement period.

The Tax Act also introduced in 2018 a tax on 50% of Global Intangible Low-Taxed Income ("GILTI"), which is income determined to be in excess of a specified routine rate of return. Since the Company is still reviewing the GILTI provisions and expects further guidance from the U.S. Treasury Department, Internal Revenue Service, state tax authorities and/or other authorities on the application of these provisions, the Company has not yet adopted an accounting policy as to whether the Company will treat taxes on GILTI as period costs or whether the Company will recognize deferred tax assets and liabilities when basis differences exist that are expected to affect the amount of the GILTI inclusion upon reversal.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The table below provides the balances for each classification of accumulated other comprehensive income (loss) at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Foreign currency translation adjustments, net of tax benefit of $44,086 and $64,445, respectively (1)	$ (82,686)	$ (15,700)
Net unrealized gains on marketable securities, net of tax:		
Net unrealized gains on marketable equity securities, net of tax charge of $57,597 (2)	—	241,088
Net unrealized gains (losses) on marketable debt securities, net of tax charge of $31,905 and $32,903, respectively	6,403	11,594
Accumulated other comprehensive income (loss)	$ (76,283)	$ 236,982

(1) Foreign currency translation adjustments, net of tax, at June 30, 2018 and December 31, 2017, include accumulated net losses from fair value adjustments of $35.0 million after tax ($52.6 million before tax) associated with previously settled derivatives that were designated as net investment hedges.

Foreign currency translation adjustments, net of tax, include foreign currency transaction losses of $96.1 million after tax ($112.0 million before tax) and $190.4 million after tax ($237.2 million before tax) at June 30, 2018 and December 31, 2017, respectively, associated with the Company's Euro-denominated debt. The Company's Euro-denominated debt is designated as a hedge against the impact of currency fluctuations on its Euro-denominated net assets (see Note 8).

The remaining balance in foreign currency translation adjustments relates to the cumulative impacts of currency fluctuations on the Company's international non-U.S. Dollar denominated net assets. During the three and six months ended June 30, 2018, the Company recorded deferred tax benefits of $21.0 million and $10.5 million, respectively, related to its one-time deemed repatriation tax liability recorded at December 31, 2017 and current year foreign earnings subject to U.S. federal and state income tax, resulting from the introduction of the Tax Act. Prior to January 1, 2018, foreign currency translation adjustments excluded U.S. federal and state income taxes as a result of the Company's intention to indefinitely reinvest the earnings of its international subsidiaries outside of the United States.

(2) Net unrealized gains on marketable equity securities, net of tax, at December 31, 2017 related to changes in the fair value of the Company's investment in Ctrip equity securities (see Note 5). Net unrealized gains before tax on equity securities at December 31, 2017 were $298.7 million, of which unrealized gains of $319.9 million were exempt from tax in the Netherlands. Unrealized losses of $21.2 million were taxable at a 25% tax rate in the Netherlands, which resulted in a tax benefit of $5.3 million at December 31, 2017. The Company also recorded U.S. tax charges of $62.9 million at December 31, 2017 related to these investments. Changes in fair value subsequent to January 1, 2018 are recognized in net income (see Note 1).

(3) Net unrealized gains (losses) on marketable debt securities, net of tax, relates to changes in the fair value of the Company's investments in debt securities (see Note 5). Net unrealized gains before tax on debt securities at June 30, 2018 and December 31, 2017 were $38.3 million and $44.5 million, respectively, of which unrealized losses of $68.6 million and $85.3 million, respectively, were exempt from tax in the Netherlands. Unrealized gains of $106.9 million and $129.8 million at June 30, 2018 and December 31, 2017, respectively, were taxable at a 25% tax rate in the Netherlands, resulting in tax charges of $26.7 million and $32.4 million, respectively. The Company also recorded U.S. tax charges of $5.2 million and $0.5 million at June 30, 2018 and December 31, 2017, respectively, related to these investments.

12. COMMITMENTS AND CONTINGENCIES

Competition Reviews

The online travel industry has become the subject of investigations by various national competition authorities ("NCAs"), particularly in Europe. The Company is or has been involved in investigations predominantly related to whether Booking.com's contractual parity arrangements with accommodation providers, sometimes also referred to as "most favored nation" or "MFN" provisions, are anti-competitive because they require accommodation providers to provide Booking.com with room rates that are at least as low as those offered to other OTCs or through the accommodation provider's website. Some investigations relate to other issues such as reservation and cancellation clauses, commission payments, consumer protection issues and pricing behavior. For instance, on September 8, 2017, the Swiss Price Surveillance Office opened an investigation into the level of commissions of Booking.com in Switzerland.

In Europe, investigations into Booking.com's price parity provisions were initiated in 2013 and 2014 by NCAs in France, Germany, Italy, Austria, Sweden, Ireland and Switzerland. A number of other NCAs have also looked at these issues. On April 21, 2015, the French, Italian and Swedish NCAs, working in close cooperation with the European Commission, announced that they had accepted "commitments" offered by Booking.com to resolve and close the investigations in France, Italy and Sweden. Under the commitments, Booking.com replaced its existing price parity agreements with accommodation providers with "narrow" price parity agreements. Under a narrow price parity agreement, subject to certain exceptions, an accommodation provider is still required to offer the same or better rates on Booking.com as it offers to a consumer directly online, but it is no longer required to offer the same or better rates on Booking.com as it offers to other OTCs. The commitments also allow an accommodation provider to, among other things, offer different terms and conditions (e.g., free WiFi) and availability to consumers that book with OTCs that offer lower rates of commission or other benefits, offer lower rates to consumers that book through offline channels and continue to discount through, among other things, accommodation loyalty programs, as long as those rates are not published or marketed online. The commitments apply to accommodations in France, Italy and Sweden and were effective on July 1, 2015. The foregoing description is a summary only and is qualified in its entirety by reference to the commitments published by the NCAs on April 21, 2015.

On July 1, 2015, Booking.com voluntarily implemented the commitments given to the French, Italian and Swedish NCAs throughout the European Economic Area and Switzerland. Nearly all NCAs in the European Economic Area have now closed their investigations following Booking.com's implementation of the commitments in their jurisdictions. Booking.com has also agreed with the NCAs in Australia, New Zealand, Georgia, Turkey and Brazil to implement the narrow price parity clause in these countries. However, the Australian NCA re-opened its investigation into Booking.com's use of price parity clauses in agreements with accommodation providers. Booking.com is in ongoing discussions with various NCAs in other countries regarding their concerns. The Company is currently unable to predict the long-term impact the implementation of these commitments will have on Booking.com's business, on investigations by other countries, or on industry practice more generally.

On December 23, 2015, the German NCA issued a final decision prohibiting Booking.com's narrow price parity agreements with accommodations in Germany. The German NCA did not issue a fine, but has reserved its position regarding an order for disgorgement of profits. Booking.com is appealing the German NCA's decision. An Italian hotel association has appealed the Italian NCA's decision to accept the commitments by Booking.com.

A working group of ten European NCAs (France, Germany, Belgium, Hungary, Ireland, Italy, the Netherlands, Czech Republic, the United Kingdom and Sweden) was established by the European Commission in December 2015 to monitor the effects of the narrow price parity clause in Europe. This working group (the "ECN Working Group") issued questionnaires during 2016 to OTCs, including Booking.com and Expedia, online price comparison sites (or "meta-search" sites) and hotels about the narrow price parity agreement. On April 6, 2017, the ECN Working Group published the results of this monitoring exercise. The report indicated that the replacement of the "wide" price parity agreement with the narrow price parity agreement generally improved conditions for competition. Although neither the European Commission nor any of the participating NCAs has opened a new investigation following the publication of the report, the ECN Working Group decided to keep the sector under review and re-assess the competitive situation in due course.

The Company is unable to predict how these appeals and the remaining investigations in other countries will ultimately be resolved, or whether further action in Europe will be taken as a result of the ECN Working Group's ongoing review. Possible outcomes include requiring Booking.com to amend or remove its rate parity clause from its contracts with accommodation providers in those jurisdictions and/or the imposition of fines. The Company is unable to predict the impact these possible outcomes might have on its business.

A number of European countries have adopted legislation making price parity agreements illegal, and it is possible other countries may adopt similar legislation in the future. For example, in August 2015, French legislation known as the "Macron Law" became effective. Among other things, the Macron Law makes price parity agreements illegal, including the narrow price parity agreements agreed to by the French NCA in April 2015. Legislation prohibiting narrow price parity agreements became effective in Austria on December 31, 2016 and in Italy on August 29, 2017. A motion calling on the Swiss government to introduce legislation prohibiting the narrow price parity clause was approved by the Swiss Parliament on September 18, 2017. In December 2017, the Belgian authorities proposed similar legislation to the European Commission. It is not yet clear how the Macron Law, the Austrian or Italian legislation or the proposed Swiss or Belgian legislation may affect the Company's business in the long term.

NCAs are continuing to review the activities of online platforms, including through the use of consumer protection powers. A number of authorities are investigating or conducting information gathering exercises in respect of compliance by OTCs with consumer protection laws. Other NCAs are reviewing the online hotel booking sector more widely through market inquiries. For example, in October 2017 the United Kingdom's NCA (the Competition and Markets Authority, or CMA) launched a consumer protection law investigation into the clarity, accuracy and presentation of information on hotel booking sites with a specific focus on the display of search results, claims regarding discounts, methods of "pressure selling" (such as creating false impressions regarding room availability) and failure to disclose hidden charges. In connection with this investigation, in June 2018, the CMA announced that it would proceed with enforcement action against a number of hotel booking sites. Similarly, the consumer protection department of the German NCA opened a sector inquiry into online price comparison sites in various sectors including travel and hotels in October 2017. Further, in March 2018, the Danish NCA began a review of the competitive conditions of the online hotel booking market. Outside Europe, in April 2018 the Singaporean NCA launched a market review into the online travel sector, with a focus on agreements between booking platforms and flight and hotel service providers. The Australian House of Representatives Standing Committee on Industry, Innovation, Science and Resources has also commenced an inquiry into the impacts of global online companies on local businesses in Australia. We are cooperating with regulators where applicable, but we are unable to predict what, if any, effect such actions will have on our business, industry practices or online commerce more generally.

Competition-related investigations, legislation or issues could also give rise to private litigation. For example, Booking.com is involved in private litigation in Sweden related to its narrow price parity provisions. In July 2018, the Swedish Patent and Market Court determined that the narrow price parity clause had to be removed from Booking.com's agreements with hotels in Sweden. Booking.com plans to appeal the court's decision. We are unable to predict how this litigation will ultimately be resolved, or whether it will impact Booking.com's business in Sweden.

Tax Matters

French tax authorities conducted an audit of Booking.com of the years 2003 through 2012. They are asserting that Booking.com has a permanent establishment in France and are seeking to recover what they claim are unpaid income taxes and value-added taxes. In December 2015, the French tax authorities issued Booking.com assessments related to those tax years for approximately 356 million Euros, the majority of which would represent penalties and interest. The Company believes that Booking.com has been, and continues to be, in compliance with French tax law, and the Company is contesting the assessments. The Company's objection to the assessments was denied by the French tax authorities. If the Company is unable to resolve the matter with the French tax authorities, it would expect to challenge the assessments in the French courts. In order to contest the assessments in court, the Company may be required to pay, upfront, the full amount or a significant part of any such assessments, though such payment would not constitute an admission by the Company that it owes the taxes. Alternatively, any resolution or settlement of the matter with the French tax authorities may also require a payment as part of such resolution or settlement. French tax authorities have begun a similar audit of the tax years 2013 through 2015, which could result in additional assessments.

Italian authorities are reviewing Booking.com's activities to determine whether Booking.com has a permanent establishment in Italy. They are also reviewing Booking.com's transfer pricing practices in Italy. The Company believes that Booking.com has been, and continues to be, in compliance with Italian tax law. The Company is cooperating with the investigation but intends to contest any allegation that Booking.com has a permanent establishment in Italy. It is unclear at this stage of the investigation what actions, if any, the Italian authorities will take. Such actions could include closing the investigation, assessing Booking.com additional taxes, as well as the imposition of interest, fines and penalties, or even bringing criminal charges.

From time to time, the Company is involved in other tax-related audits, investigations or proceedings, which could relate to income taxes, value-added taxes, sales taxes, employment taxes, etc. For example, the Company is subject to legal proceedings in the United States related to travel transaction taxes (e.g., hotel occupancy taxes, sales taxes, etc.).

Turkish Matter

From time to time the Company has been subject to legal proceedings and claims regarding whether it is subject to local registration requirements, such as requirements to register as a travel agent. In March 2017, in connection with a lawsuit begun in 2015 by the Association of Turkish Travel Agencies claiming that Booking.com is required to meet certain registration requirements in Turkey, a Turkish court ordered Booking.com to suspend offering Turkish hotels and accommodations to Turkish residents. Although Booking.com is appealing the order and believes it to be without basis, this order has had a negative impact on the Company's growth and results of operations, and is expected to continue to negatively impact the Company's results of operations.

Other

The Company accrues for certain legal contingencies where it is probable that a loss has been incurred and the amount can be reasonably estimated. Such accrued amounts are not material to the Company's balance sheets and provisions recorded have not been material to the Company's results of operations or cash flows. An estimate of a reasonably possible loss or range of loss cannot be reasonably made.

From time to time, the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of third-party intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources, divert management's attention from the Company's business objectives and adversely affect the Company's business, results of operations, financial condition and cash flows.

Contingent Consideration for Business Acquisition

At June 30, 2018 and December 31, 2017, the Company's Unaudited Consolidated Balance Sheets included a liability of approximately $9 million for estimated contingent payments for a business acquisition in 2015. The fair value of the liability, which is considered a "Level 3" fair value measurement (see Note 6), was based upon probability-weighted average payments for specific performance factors from the acquisition date through the performance period which ends on March 31, 2019. The range of undiscounted outcomes for the estimated contingent payments is $0 to approximately $90 million.

Building Construction

In September 2016, the Company signed a turnkey agreement to construct an office building in the Netherlands, which will be the future headquarters of the Booking.com business. The turnkey agreement provided for payments by Booking.com of approximately 270 million Euros and consists of two components, land-use rights and the building to be constructed. Upon signing this agreement, Booking.com paid approximately 48 million Euros to the developer, which included approximately 43 million Euros for the acquired land-use rights and approximately 5 million Euros for the building construction. The land-use rights are included in "Other assets" and the building construction-in-progress is included in "Property and equipment, net" in the Unaudited Consolidated Balance Sheets. The land-use rights asset is recognized as rent expense on a straight-line basis over a 49-year lease term. As of June 30, 2018, required future lease payments for the land-use rights of approximately 78 million Euros, which is in addition to the 270 million Euros related to the turnkey agreement, will be recognized as rent expense on a straight-line basis over the remaining 48-year term of the lease. Rent expense associated with land use rights is recorded in "General and administrative" expense in the Unaudited Consolidated Statements of Operations. Booking.com paid approximately 34 million Euros in the first quarter of 2018 and expects to pay approximately 27 million Euros in the third quarter of 2018, almost entirely related to building construction. The remaining amount of approximately 161 million Euros related to building construction under the turnkey agreement will be paid periodically from the fourth quarter of 2018 until the expected completion of the building in early 2021. The Company will also make additional capital expenditures to fit out and furnish the office space.

Business Acquisition

In July 2018, the Company signed a definitive agreement to acquire a hotel meta-search company and will pay approximately $140 million in cash in connection with this acquisition. The transaction is expected to close later this year, subject to regulatory approval and other closing conditions.

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

The following discussion should be read in conjunction with our Unaudited Consolidated Financial Statements, including the notes to those statements, included elsewhere in this Quarterly Report on Form 10-Q, and the Section entitled "Special Note Regarding Forward-Looking Statements" at the end of this Item 2. As discussed in more detail in the Section entitled "Special Note Regarding Forward-Looking Statements," this discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause those differences include those discussed in "Risk Factors" and elsewhere in this Quarterly Report. The information on our websites is not a part of this Quarterly Report and is not incorporated herein by reference.

We evaluate certain operating and financial measures on both an as-reported and constant-currency basis. We calculate constant currency by converting our current-year period financial results for transactions recorded in currencies other than U.S. Dollars using the corresponding prior-year period monthly average exchange rates rather than the current-year period monthly average exchange rates.

Overview

Our mission is to help people experience the world. We aim to achieve our mission to help people experience the world through global leadership in online travel and restaurant reservation and related services by:

- providing consumers with the best choices and prices at any time, in any place, on any device;
- making it easy for people to find, book and experience their travel desires; and
- providing platforms, tools and insights to our business partners to help them be successful.

We operate six primary brands:

- Booking.com - the world’s leading brand for booking online accommodation reservations, based on room nights booked.
- priceline - a leading hotel, rental car, airline ticket and vacation package reservation service in the United States.
- KAYAK - a leading meta-search service allowing consumers to easily search and compare travel itineraries and prices, including airline ticket, accommodation and rental car reservation information, from hundreds of travel websites at once.
- agoda.com - a leading accommodation reservation service catering primarily to consumers in the Asia-Pacific region.
- Rentalcars.com - a leading worldwide rental car reservation service.
- OpenTable - a leading provider of restaurant reservation and information services to consumers and restaurant reservation management and customer acquisition services to restaurants.

Results for KAYAK include the Momondo Group since it was acquired in July 2017. We refer to our company and all of our subsidiaries and brands collectively as "Booking Holdings," the "Company," "we," "our" or "us."

Our business is driven primarily by international results, which consist of the results of Booking.com, Rentalcars.com (which began operating as part of Booking.com on January 1, 2018) and agoda.com and the international businesses of KAYAK and OpenTable. This classification is independent of where the consumer resides, where the consumer is physically located while using our services or the location of the travel service provider or restaurant. For example, a reservation made through Booking.com at a hotel in New York by a consumer in the United States is part of our international results. During the year ended December 31, 2017, our international business (the substantial majority of which is generated by Booking.com) represented approximately 89% of our consolidated gross profit.

We derive substantially all of our revenue from the following sources:

- Commissions earned from facilitating reservations of accommodations, rental cars and other travel services on an agency basis;
- Transaction revenues on a merchant basis and customer processing fees from our accommodation, rental car, airline ticket, attractions and in-stay services and vacation package reservation services;
- Advertising revenues primarily earned by KAYAK from sending referrals to online travel companies ("OTCs") and travel service providers, as well as from advertising placements on KAYAK's websites and mobile apps;

- Reservation revenues paid by restaurants for diners seated through OpenTable's online reservation services, subscription fees for restaurant reservation management services provided by OpenTable; and
- Ancillary revenues including travel insurance fees and global distribution system ("GDS") reservation booking fees, in each case related to certain of our travel services.

Our priceline brand offers merchant *Name Your Own Price®* opaque travel services, which were previously recorded in revenue on a "gross" basis with the amount remitted to the travel service providers reported as cost of revenues. Under the current revenue standard, *Name Your Own Price®* revenues are reported on a net basis with the amount remitted to the travel service providers recorded as an offset in merchant revenues. Therefore, for periods beginning after December 31, 2017, we no longer present "Cost of revenues" or "Gross profit" in our Consolidated Statements of Operations. Total revenues for periods beginning after December 31, 2017 are comparable to gross profit reported in prior periods. For further information on the adoption of the current revenue standard, see Note 2 to the Unaudited Consolidated Financial Statements.

Trends

Over the last several years we have experienced strong growth in our accommodation reservation services. We believe this growth is the result of, among other things, the broader shift of travel purchases from offline to online, the widespread adoption of mobile devices and the growth of travel overall, including in higher growth emerging markets such as Asia-Pacific and South America. We also believe this growth is the result of the continued innovation and execution by our teams around the world to add accommodations to our travel reservation services, increase and improve content, build distribution and improve the consumer experience on our websites and mobile apps, as well as consistently and effectively marketing our brands through performance and brand marketing efforts. These year-over-year growth rates have generally decelerated. Given the size of our accommodation reservation business, we expect that our year-over-year growth rates will generally continue to decelerate, though the rate of deceleration may fluctuate and there may be periods of acceleration from time to time.

Our international business represents the substantial majority of our financial results, and we expect our operating results and other financial metrics to continue to be largely driven by international performance. The size of the travel market outside of the United States is substantially greater than that within the United States, and recent international online travel growth rates have exceeded, and are expected to continue to exceed, the growth rates within the United States. Over the long term, we expect that international online travel growth rates will follow a similar trend to that experienced in the United States. In addition, the base of hotel properties in Europe and Asia is particularly fragmented compared to that in the United States, where the hotel market is dominated by large hotel chains. We believe online reservation systems like ours may be more appealing to small chains and independent hotels more commonly found outside of the United States. We believe these trends and factors have enabled us to become the leading online accommodation reservation service provider in the world as measured by room nights booked. We believe that the opportunity to continue to grow our business exists for the markets in which we operate.

Our growth has primarily been generated by our worldwide accommodation reservation service brand, Booking.com, which is our most significant brand, and has been due, in part, to the availability of a large and growing number of instantly bookable properties through Booking.com. Booking.com included approximately 1,925,000 properties on its website at June 30, 2018, consisting of approximately 425,000 hotels, motels and resorts and approximately 1,500,000 homes, apartments and other unique places to stay, compared to approximately 1,340,000 properties (including approximately 365,000 hotels, motels and resorts and approximately 975,000 homes, apartments, and other unique places to stay) at June 30, 2017. Booking.com categorizes properties listed on its website as either (a) hotels, motels and resorts, which groups together more traditional accommodation types (including hostels, resorts, inns and motels), or (b) homes, apartments and other unique places to stay, also referred to as alternative accommodations, which encompasses all other types of accommodations, including homes, apartments, villas and beyond.

We intend to continue to invest in adding accommodations available for reservation on our platforms, such as hotels, motels, resorts, homes, apartments and other unique places to stay. Many of the newer accommodations we add to our travel reservation services, especially in highly-penetrated markets, may have fewer rooms or higher credit risk and may appeal to a smaller subset of consumers (e.g., hostels and bed and breakfasts). Because alternative accommodations are often either a single unit or a small collection of independent units, these properties generally represent more limited booking opportunities than hotels, motels and resorts, which generally have more units to rent per property. Further, alternative accommodations in general may be subject to increased seasonality due to local tourism seasons, weather or other factors or may not be available at peak times due to use by the property owners. We may also experience lower profit margins with respect to these properties due to certain additional costs related to offering these accommodations on our websites. As we increase our alternative accommodation business, these different characteristics could negatively impact our profit margins; and, to the extent these properties represent an increasing percentage of the properties added to our websites, we expect that our gross bookings growth rate and property growth rate will continue to diverge over time (since each such property has fewer booking opportunities). As a result of the foregoing, as the percentage of alternative accommodation properties increases, the number of reservations per property will likely continue to decrease. We believe that continuing to expand the number and variety of accommodations available through our services, in particular Booking.com, will help us to continue to grow our accommodation reservation business.

As part of our strategy to increase the number and variety of accommodations available on Booking.com, Booking.com is increasingly processing transactions on a merchant basis where it receives payments on behalf of customers. This allows Booking.com to process transactions for properties that do not accept credit cards and to increase its ability to offer secure and flexible transaction terms to consumers, such as the form and timing of payment. We believe that adding these types of properties and service offerings will benefit our customers and our gross bookings, room night and earnings growth rates. However, this results in additional expenses for personnel, payment processing, chargebacks and other expenses related to these transactions, which are recorded in "Personnel" and "Sales and other expenses" in our Unaudited Statements of Operations. As this business continues to grow, we may experience a significant increase in these expenses, which would negatively impact our operating margins.

Perceived or actual adverse economic conditions, including slow, slowing or negative economic growth, rising unemployment rates and weakening currencies and concerns over government responses such as higher taxes and reduced government spending, could impair consumer spending and adversely affect travel demand. Further, political uncertainty, conditions or events, such as the United Kingdom's decision to leave the European Union ("Brexit") and concerns regarding certain E.U. members with sovereign debt default risks can also negatively affect consumer spending and adversely affect travel demand. At times, we have experienced volatility in transaction growth rates, increased cancellation rates and weaker trends in hotel average daily rates ("ADRs") across many regions of the world, particularly in those countries that appear to be most affected by economic and political uncertainties, which we believe are due at least in part to these macro-economic conditions and concerns. For more detail, see Part II Item 1A Risk Factors - "*Declines or disruptions in the travel industry could adversely affect our business and financial performance.*"

These and other macro-economic uncertainties, such as geopolitical tensions and differing central bank monetary policies, have led to significant volatility in the exchange rates between the U.S. Dollar and the Euro, the British Pound Sterling and other currencies. Significant fluctuations in currency exchange rates, stock markets and oil prices can also impact consumer travel behavior.

As noted earlier, our international business represents a substantial majority of our financial results. Therefore, because we report our results in U.S. Dollars, we face exposure to movements in currency exchange rates as the financial results of our international businesses are translated from local currency (principally Euros and British Pounds Sterling) into U.S. Dollars. As a result of currency exchange rate changes, our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income are higher as expressed in U.S. Dollars for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017. For example, total revenues in 2018 compared to gross profit in 2017 from our international operations grew 20.7% and 23.1% for the three and six months ended June 30, 2018, respectively, as compared to the three and six months ended June 30, 2017, but, without the positive impact of changes in currency exchange rates, grew year-over-year on a constant-currency basis by approximately 16% and 17%, respectively. Since our expenses are generally denominated in foreign currencies on a basis similar to our revenues, our operating margins have not been significantly impacted by currency fluctuations. The aggregate principal value of our Euro-denominated long-term debt, and accrued interest thereon, provide a hedge against the impact of currency exchange rate fluctuations on the net assets of certain of our Euro functional currency subsidiaries (see Note 6 to our Unaudited Consolidated Financial Statements). For more information, see Part II Item 1A Risk Factors - "*We are exposed to fluctuations in currency exchange rates.*"

We generally enter into derivative instruments to minimize the impact of short-term currency fluctuations on the translation of our consolidated operating results into U.S. Dollars. However, such derivative instruments are short-term in nature and not designed to hedge against currency fluctuations that could impact growth rates for our gross bookings or revenues (see Note 6 to our Unaudited Consolidated Financial Statements for additional information on our derivative contracts).

We compete globally with both online and traditional providers of travel and restaurant reservation and related services. The markets for the services we offer are intensely competitive and current and new competitors can launch new services to compete with us at relatively low cost. Some of our current and potential competitors, such as Google, Apple, Alibaba, Tencent, Amazon and Facebook, have access to significantly greater and more diversified resources than we do, and they may be able to leverage other aspects of their businesses (e.g., search or mobile device businesses) to enable them to compete more effectively with us. For example, Google has entered various aspects of the online travel market, including by establishing a flight meta-search product (Google Flights) and a hotel meta-search business (Google Hotel Ads) that are growing rapidly, as well as its "Book on Google" reservation functionality and its Google Trips app. Our markets are also subject to rapidly changing conditions, including technological developments, consumer behavior changes, regulatory changes and travel service provider consolidation. We expect these trends to continue. For example, we have experienced a significant shift of both direct and indirect business to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. Advertising and distribution opportunities may be more limited on mobile devices given their smaller screen sizes. In addition, the revenue earned on a mobile transaction may be less than a typical desktop transaction due to different consumer purchasing patterns. For example, accommodation reservations made on a mobile device typically are for shorter lengths of stay, have lower ADRs and are not made as far in advance. For more detail regarding the competitive trends and risks we face, see Part II Item 1A Risk Factors - "*Intense competition could reduce our market share and harm our financial performance.*" and "*Consumer adoption and use of mobile devices creates new challenges and may enable device companies such as Apple to compete directly with us.*" and "*We may not be able to keep up with rapid technological changes.*"

Although we believe that providing an extensive collection of properties, excellent customer service and an intuitive, easy to use website or mobile experience are important factors influencing a consumer's decision to make a reservation, for many consumers, particularly in certain markets, the price of the travel service is the primary factor determining whether a consumer will book a reservation. We have observed an increase in promotional pricing to closed user groups (such as loyalty program participants or consumers with registered accounts), including through mobile apps. In addition, many large hotel chains and OTCs have launched initiatives, such as increased discounting and incentives, to encourage consumers to book accommodations through their websites. Discounting and couponing coupled with a high degree of consumer shopping behavior is particularly common in Asian markets. In some cases, our competitors are willing to make little or no profit on a transaction, or offer travel services at a loss, in order to gain market share.

We have established widely used and recognized e-commerce brands through marketing and promotional campaigns. Both our performance and brand marketing expenses have increased significantly in recent years, a trend we expect to continue. For the six months ended June 30, 2018 and 2017, our total performance marketing expense was approximately $2.2 billion and $2.1 billion, respectively, primarily related to the use of online search engines (primarily Google), meta-search and travel research services and affiliate marketing to generate traffic to our websites. Growth of some of these channels has slowed. We also invested approximately $225 million and $211 million in brand marketing for the six months ended June 30, 2018 and 2017, respectively, primarily related to costs associated with producing and airing television advertising, online video advertising (for example, on YouTube and Facebook), online display advertising and other brand marketing. We intend to continue a strategy of promoting brand awareness through both online and offline marketing efforts, including by expanding brand campaigns into additional markets, which may significantly increase our brand marketing expenses in 2018. We have observed increased brand marketing by OTCs, meta-search services and travel service providers, particularly in North America and Europe, which may make our brand marketing efforts more expensive and less effective.

Performance marketing efficiency, expressed as performance marketing expense as a percentage of total revenues in 2018 or as a percentage of gross profit in 2017, is impacted by a number of factors that are subject to variability and that are, in some cases, outside of our control, including ADRs, costs per click, cancellation rates, foreign exchange rates, our ability to convert paid traffic to booking customers and the extent to which consumers come directly to our websites or mobile apps for bookings. For example, competition for desired rankings in search results and/or a decline in ad clicks by consumers could increase our costs per click and reduce our performance marketing efficiency. Over time, we have also experienced increasing cancellation rates, which negatively affects our marketing efficiency and results of operations. Changes by Google in how it presents travel search results, including by placing its own offerings at or near the top of search results, or the manner in which it conducts the auction for placement among search results may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our websites. Similarly, changes by our other search and meta-search partners in how they present travel search results or the manner in which they conduct the auction for placement among search results may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our websites.

We have observed a long-term trend of decreasing performance marketing returns on investment ("ROIs"), a trend we expect to continue, though the rate of decrease may fluctuate and there may be periods of stable or increasing ROIs from time to time. In addition, we may from time to time, as we did in the third and fourth quarters of 2017 and in the first and second quarters of 2018, pursue a strategy of improving our performance marketing ROIs, which could negatively impact growth and positively impact performance marketing efficiency. When evaluating our performance marketing spend, we consider several factors for each channel, such as the customer experience on the advertising platform, the incrementality of the traffic we receive and the anticipated repeat rate from a particular platform, as well as other factors. Our strategy of improving performance marketing ROIs, along with factors such as competitors' actions in the bidding environment, the amount of marketing invested by these channels to generate demand and overall performance platform traffic growth trends, which have shown volatility and long-term deceleration of growth rates, may also impact growth rates for performance marketing channels.

See Part II Item 1A Risk Factors - "*We rely on performance and brand marketing channels to generate a significant amount of traffic to our websites and grow our business.*" and "*Our business could be negatively affected by changes in internet search engine algorithms and dynamics or traffic-generating arrangements.*"

We estimate our effective tax rate for 2018 to be approximately 18-21%, which represents our best estimate of our tax expense including the impact of the U.S. Tax Cuts and Jobs Act (the "Tax Act"), estimated U.S. state income taxes and international withholding taxes on our international earnings, and an increase in the Innovation Box Tax rate in the Netherlands from 5% to 7%. The provisions of the Tax Act are broad and complex, and to date there has been little interpretation or clarification of the act from U.S. tax authorities. As a result, our estimate is based on our current understanding and could change as more information becomes available. See Part I Item 1A Risk Factors - "*We may have exposure to additional tax liabilities.*" and "*We may not be able to maintain our 'Innovation Box Tax' benefit.*"

The national competition authorities ("NCAs") of many governments have conducted or are conducting investigations into competitive practices within the online travel industry, and we may be involved or affected by such investigations and their results. Some countries have adopted or proposed legislation that could also affect business practices within the online travel industry. For example, France and Italy, among others, have adopted legislation making price parity agreements illegal and similar legislation is under consideration in other countries. Also, a number of NCAs are investigating or conducting information-gathering exercises in respect of compliance by OTCs with consumer protection laws, investigating practices such as display of search results and search ranking algorithms, claims regarding discounts, disclosure of charges and availability, and similar messaging. For more information on these investigations and their potential effects on our business, see Note 12 to our Unaudited Consolidated Financial Statements and Part II Item 1A Risk Factors - "*As the size of our business grows, we may become increasingly subject to the scrutiny of anti-trust, competition and consumer protection regulators.*" In addition to the price parity and consumer protection investigations, from time to time NCAs, other governmental agencies, trade associations and private parties take legal actions, including commencing legal proceedings, that may affect our operations. For example, in March 2017, in connection with a lawsuit begun in 2015 by the Association of Turkish Travel Agencies claiming that Booking.com is required to meet certain registration requirements in Turkey, a Turkish court ordered Booking.com to suspend offering Turkish hotels and accommodations to Turkish residents. Although Booking.com is appealing the order and believes it to be without basis, this order has had a negative impact on the Company's growth and results of operations, and is expected to continue to negatively impact the Company's results of operations. In general, increased regulatory focus on online businesses, including online travel businesses like ours, could result in increased compliance costs or otherwise adversely affect our business.

Seasonality

A meaningful amount of our gross bookings is generated early in the year, as customers plan and reserve their spring and summer vacations in Europe and North America. However, historically we generally have not recognized revenue from these bookings until the travel is completed (at "check-out") or for periods beginning after December 31, 2017 when the travel begins (at "check-in"), which, in either case, can be in a quarter other than when the reservation is booked. In contrast, we expense the substantial majority of our marketing activities as the expense is incurred, which, in the case of performance marketing in particular, is typically in the quarter in which associated reservations are booked. As a result of this potential timing difference between when we record marketing expense and when we recognize associated revenue, we have historically experienced our highest levels of profitability in the third quarter of the year, which is when we experience the highest levels of accommodation check-outs for the year for our European and North American businesses. We expect this to continue under our new revenue recognition policy, under which we recognize revenue at check-in. The first quarter of the year is typically our lowest level of profitability and may experience additional volatility in earnings growth rates due to these and other seasonal timing factors. For our Asia-Pacific business, we experience the highest levels of accommodation bookings in the third and fourth quarters of the year, and the highest levels of accommodation check-ins and check-outs in the fourth quarter. As the relative growth rates for these businesses fluctuate, the quarterly distribution of our operating results may vary.

In recent years, we experienced an expansion of the booking window (the average time between the making of a travel reservation and the travel), which impacts the relationship between our gross bookings (recognized at the time of booking) and our revenues (recognized at the time of check-out or, for periods beginning after December 31, 2017, at the time of check-in). Recently, we have seen a modest contraction of the booking window. Future changes in the booking window may cause additional differences between our gross bookings growth rates and revenue growth rates.

Upon adoption of the current revenue standard, for periods beginning after December 31, 2017, the timing of revenue recognition for travel reservation services changed. For example, revenue for accommodation reservation services, which was primarily recognized at check-out under the previous revenue standard, changed to be recognized at check-in under the new revenue standard. We estimate that total revenues recognized at check-in will be approximately 1% lower in the third quarter of

2018 and approximately 5% higher in the fourth quarter of 2018 compared to the same quarters in 2018 if revenues were recognized at check-out.

In addition, the date on which certain holidays fall can have an impact on our quarterly results. For example, in 2017, our second quarter year-over-year growth rates in revenue, gross profit, operating income and operating margins were positively impacted by Easter falling in the second quarter instead of the first quarter, as it did in 2016. Conversely, our first quarter 2017 year-over-year growth rates in revenue, gross profit, operating income and operating margins were adversely impacted by Easter falling in the second quarter instead of the first quarter, as it did in 2016. Similar to 2017, in 2018 Easter fell in the second quarter instead of the first quarter. However, because Easter was on April 1, 2018 and a meaningful amount of Easter travel commenced in the week leading up to Easter (i.e., during the first quarter), Easter had a positive effect on our first quarter 2018 year-over-year growth rates and had a negative effect on our second quarter 2018 year-over-year growth rates due to the change in our revenue recognition policy from "check-out" to "check-in." The timing of other holidays such as Ramadan can also impact our quarterly year-over-year growth rates.

The impact of seasonality can be exaggerated in the short term by the gross bookings growth rate of the business. For example, in periods where our gross bookings growth rate substantially decelerates, our operating margins typically benefit from relatively less variable marketing expense. In addition, revenue growth is typically less impacted by decelerating gross bookings growth in the near term due to the benefit of revenue related to reservations booked in previous quarters, but any such deceleration would negatively impact revenue growth in subsequent periods. Conversely, in periods where our gross bookings growth rate accelerates, our operating margins are typically negatively impacted by relatively more variable marketing expense. In addition, revenue growth is typically less impacted by accelerating gross bookings growth in the near term, but any such acceleration would positively impact revenue growth in subsequent periods as a portion of the revenue recognized from such gross bookings will occur in future quarters.

Other Factors

We believe that our future success depends in large part on our ability to continue to profitably grow our brands worldwide, and, over time, to offer other travel and travel-related services. Factors beyond our control, such as oil prices, stock market volatility, terrorist attacks, unusual or extreme weather or natural disasters such as earthquakes, hurricanes, tsunamis, floods, droughts and volcanic eruptions, travel-related health concerns including pandemics and epidemics such as Ebola, Zika and MERS, political instability, changes in economic conditions, regional hostilities, imposition of taxes or surcharges by regulatory authorities, changes in trade or immigration policies or travel-related accidents, can disrupt travel or otherwise result in declines in travel demand. Because these events or concerns, and the full impact of their effects, are largely unpredictable, they can dramatically and suddenly affect travel behavior by consumers, and therefore demand for our services, which can adversely affect our business and results of operations. See Part II Item 1A Risk Factors - "*Declines or disruptions in the travel industry could adversely affect our business and financial performance.*"

We intend to continue to invest in marketing and promotion, technology and personnel within parameters consistent with attempts to improve long-term operating results, even if those expenditures create pressure on operating margins. We have experienced pressure on operating margins as we prioritize initiatives that drive growth. We also intend to broaden the scope of our business, and to that end, we explore strategic alternatives from time to time in the form of, among other things, acquisitions. As the overall size of our business has grown, the competitive pressure to innovate will encompass a wider range of services and technologies, including services and technologies that may be outside of our historical core business, and our ability to keep pace may slow. Potential competitors, such as emerging start-ups, may be able to innovate and focus on developing a particularly new product or service faster than we can or may foresee consumer need for new services or technologies before us. Some of our larger competitors or potential competitors have more resources or more established or diversified relationships with consumers than we do, and they could use these advantages in ways that could affect our competitive position, including by making acquisitions, entering or investing in travel reservation businesses, investing in research and development, and competing aggressively for highly-skilled employees. Our goal is to grow revenue and achieve healthy operating margins in an effort to maintain profitability. The uncertain and highly competitive environment in which we operate makes the prediction of future results of operations difficult, and accordingly, we may not be able to sustain revenue growth and profitability.

Results of Operations

Three and Six Months Ended June 30, 2018 compared to the Three and Six Months Ended June 30, 2017

We evaluate certain operating and financial measures on both an as-reported and constant-currency basis. We calculate constant currency by converting our current-year period financial results for transactions recorded in currencies other than U.S. Dollars using the corresponding prior-year period monthly average exchange rates rather than the current-year period monthly average exchange rates.

Operating and Statistical Metrics

Our financial results are driven by certain operating metrics that encompass the booking and other business activity generated by our travel and travel-related services. Specifically, reservations of accommodation room nights, rental car days and airline tickets capture the volume of units booked through our OTC brands by our travel reservation services customers. Gross bookings is an operating and statistical metric that captures the total dollar value, generally inclusive of taxes and fees, of all travel services booked through our OTC brands by our customers, net of cancellations, and is widely used in the travel business. Our non-OTC brands (KAYAK and OpenTable) have different business metrics from those of our OTC brands and therefore search queries through KAYAK and restaurant reservations through OpenTable do not contribute to our gross bookings.

Gross bookings resulting from reservations of accommodation room nights, rental car days and airline tickets made through our agency and merchant models for the three and six months ended June 30, 2018 and 2017 were as follows (numbers may not total due to rounding):

	Three Months Ended June 30, (in millions)			Six Months Ended June 30, (in millions)		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Agency	$ 19,090	$ 17,947	6.4%	$ 39,666	$ 36,087	9.9%
Merchant	4,807	2,850	68.6%	9,240	5,396	71.2%
Total	$ 23,896	$ 20,797	14.9%	$ 48,906	$ 41,484	17.9%

Gross bookings increased by 14.9% and 17.9% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017 (growth on a constant-currency basis was approximately 11% and 12%, respectively), almost entirely due to growth of 12.0% and 12.6%, respectively, in accommodation room night reservations and the beneficial impact of foreign exchange rate fluctuations. Accommodation ADRs on a constant-currency basis were relatively unchanged for the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017. For the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017, foreign exchange rate fluctuations significantly benefited gross bookings growth in U.S. Dollars. We believe that unit growth rates and growth in total gross bookings on a constant-currency basis, which excludes the impact of foreign exchange rate fluctuations, are important measures to understand the fundamental performance of the business.

Agency gross bookings are derived from travel-related transactions where we do not receive payments from travelers for the travel services provided. Agency gross bookings increased by 6.4% and 9.9% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, almost entirely due to the growth in gross bookings from Booking.com agency accommodation room night reservations.

Merchant gross bookings are derived from services where we receive payments from travelers for the travel services provided. Merchant gross bookings increased by 68.6% and 71.2% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, almost entirely due to growth in gross bookings from our merchant accommodation reservation services at Booking.com and agoda.com.

Accommodation room nights, rental car days and airline tickets reserved through our services for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30, (in millions)			Six Months Ended June 30, (in millions)		
	2018	2017	Change	2018	2017	Change
Room nights	190.5	170.2	12.0%	387.3	344.1	12.6%
Rental car days	20.9	20.7	1.0%	39.7	39.4	0.8%
Airline tickets	1.9	1.8	5.3%	3.7	3.6	3.6%

Accommodation room night reservations increased by 12.0% and 12.6% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, primarily due to strong execution by our brand teams to add new properties to our accommodation reservation services, invest in performance and brand marketing and provide a continuously improving experience for customers, as well as the ongoing shift from offline to online for travel bookings.

Rental car day reservations increased by 1.0% and 0.8% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, due to an increase in Rentalcars.com's rental car day reservations, partially offset by a decline in priceline's rental car day reservations. On March 26, 2018, priceline discontinued its *Name Your Own Price®* rental car reservation service.

Airline ticket reservations increased by 5.3% and 3.6% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, due to the benefits of priceline's investments in its flight platform and brand marketing.

Revenues

Online travel reservation services

Substantially all of our revenues are generated by providing online travel reservation services, which facilitate online travel purchases between travel service providers and travelers. For periods beginning after December 31, 2017, we recognize revenue for travel reservation services when the travel begins rather than when the travel is completed. For example, once the customer checks in to an accommodation, we record revenues, which are net of sales incentives and expected cancellations.

In addition, for periods beginning prior to January 1, 2018, revenues from *Name Your Own Price®* ("NYOP") transactions were presented on a gross basis with the amount remitted to the travel service providers reported as cost of revenues. Under the current revenue standard, NYOP revenues are reported on a net basis with the amount remitted to the travel service providers recorded as an offset in merchant revenues. Therefore, for periods beginning after December 31, 2017, we no longer present "Cost of revenues" or "Gross profit" in our Consolidated Statements of Operations. For further information on the adoption of the current revenue standard, see Note 2 to the Unaudited Consolidated Financial Statements.

Online travel reservation services are classified into two categories:

- Agency revenues are derived from travel-related transactions where we do not receive payments from travelers for the travel reservation services provided. Agency revenues consist almost entirely of travel reservation commissions, as well as certain GDS reservation booking fees and certain travel insurance fees. Substantially all of our agency revenue is from Booking.com agency accommodation reservations.

- Merchant revenues are derived from services where we receive payments from travelers for the travel reservation services provided. Merchant revenues include (1) transaction net revenues (i.e., the amount charged to a customer, less the amount charged to us by travel service providers) and travel reservation commissions in connection with (a) the accommodation reservations provided through our merchant accommodation reservation services at Booking.com, agoda.com and priceline and (b) the reservations provided through our merchant rental car service at Rentalcars.com; (2) ancillary fees, including damage excess waiver insurance and certain travel insurance fees and certain GDS reservation booking fees and (3) customer processing fees charged in connection with the merchant accommodation reservation services at priceline and agoda.com.

Advertising and other revenues

Advertising and other revenues are derived primarily from (1) revenues earned by KAYAK for (a) sending referrals to OTCs and travel service providers and (b) advertising placements on KAYAK's websites and mobile apps; (2) revenues earned by OpenTable for (a) reservation fees (fees paid by restaurants for diners seated through OpenTable's online reservation service) and (b) subscription fees earned by OpenTable for restaurant reservation management services; (3) revenues earned by priceline for advertising on its websites; and (4) revenues generated by Booking.com's BookingSuite branded accommodation marketing and business analytics services.

	Three Months Ended June 30, (in thousands)			Six Months Ended June 30, (in thousands)		
	2018	2017	Change	2018	2017	Change
Agency revenues	$ 2,566,293	$ 2,332,371	10.0%	$ 4,679,632	$ 4,117,684	13.6%
Merchant revenues	709,864	498,133		1,236,331	940,178	
Advertising and other revenues	260,937	194,052	34.5%	549,332	386,098	42.3%
Total revenues	$ 3,537,094	3,024,556		$ 6,465,295	5,443,960	
Cost of revenues		67,425			147,826	
Gross profit		$ 2,957,131			$ 5,296,134	

Agency revenues increased by 10.0% and 13.6% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, almost entirely due to growth in agency accommodation room night reservations at Booking.com.

Merchant revenues for the three and six months ended June 30, 2018 were $709.9 million and $1.2 billion, respectively, compared to merchant revenues less cost of revenues of $430.7 million and $792.4 million for the three and six months ended June 30, 2017, respectively, resulting in an increase of 64.8% and 56.0%, respectively. Revenue from our merchant accommodation reservation services contributed approximately 90% of the year-over-year increase for both the three and six months ended June 30, 2018. Booking.com has been expanding its merchant accommodation reservation services to provide greater payment options for both customers and travel service providers.

Advertising and other revenues increased by 34.5% and 42.3% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, primarily due to (1) the inclusion in 2018 of approximately $40 million and $84 million in revenue related to the Momondo Group for the three and six months ended June 30, 2018, respectively; (2) other growth in our KAYAK business; and (3) increased diner reservation volumes at OpenTable. The increase for the six months ended June 30, 2018, was also driven by a benefit from the reversal of approximately $27 million related to OpenTable's loyalty program liability, which resulted from the introduction of a three-year time-based expiration for points earned by diners.

Total revenues of $3.5 billion and $6.5 billion for the three and six months ended June 30, 2018, respectively, as compared to gross profit of $3.0 billion and $5.3 billion for the three and six months ended June 30, 2017, respectively, increased by 19.6% and 22.1%, respectively (growth on a constant-currency basis was approximately 16% for both the three and six months). Revenue from our accommodation reservation services contributed approximately 82% of the year-over-year increase for both the three and six months ended June 30, 2018.

Total revenues for the three and six months ended June 30, 2018 under the current revenue standard, where revenue is recognized when the travel begins (at "check-in"), were approximately 0.2% higher and 1.0% lower than total revenues for the three and six months ended June 30, 2018, respectively, if reported under the previous revenue standard, where revenue was recognized when travel was completed (at "check-out") (see Note 2 to our Unaudited Consolidated Financial Statements). The favorable impact of 0.2% on total revenues for the three months ended June 30, 2018 resulted in a slightly favorable impact on the growth rate when comparing 2018 total revenues to 2017 gross profit. The unfavorable impact of 1.0% on total revenues for the six months ended June 30, 2018 resulted in an unfavorable impact on the growth rate of approximately one percentage point when comparing 2018 total revenues to 2017 gross profit.

Total revenues as a percentage of gross bookings was 14.8% for the three months ended June 30, 2018 as compared to gross profit as a percentage of gross bookings of 14.2% for the three months ended June 30, 2017. The increase is due in part to the timing of booking versus travel and the inclusion of the Momondo Group since its acquisition in July 2017. The increase is partially offset by: (1) Easter falling on April 1, 2018 versus the prior year on April 16, 2017, which resulted in Easter-related revenue being recognized at check-in during the first quarter of this year instead of Easter-related revenue being recognized at check-out in the second quarter of the prior year and (2) the increased use of discounted closed user group rates and incentives to drive gross bookings. Total revenues as a percentage of gross bookings was 13.2% for the six months ended June 30, 2018, as compared to gross profit as a percentage of gross bookings of 12.7% for the six months ended June 30, 2017. The increase is due in part to: (1) the timing of booking versus travel; (2) the inclusion of the Momondo Group since its acquisition in July 2017; and (3) the adjustment to reverse a portion of OpenTable's loyalty program liability. The increase is partially offset by the increased use of discounted closed user group rates and incentives to drive gross bookings.

Our international operations accounted for approximately \$3.1 billion and \$5.7 billion of our total revenues for the three and six months ended June 30, 2018, respectively, compared to \$2.6 billion and \$4.6 billion of our gross profit for the three and six months ended June 30, 2017, respectively. Total revenues in 2018 compared to gross profit in 2017 attributable to our international operations increased by 20.7% and 23.1% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017 (growth on a constant-currency basis was approximately 16% and 17%, respectively). Total revenues in 2018 compared to gross profit in 2017 attributable to our U.S. businesses increased by 11.9% and 15.2% for the three and six months ended June 30, 2018, respectively, compared to the three and six months ended June 30, 2017, due to growth in all of our U.S. businesses. In addition, the adjustment to reverse a portion of OpenTable's loyalty program liability had a favorable impact on total revenues attributable to our U.S. businesses for the six months ended June 30, 2018 of approximately \$27 million.

Operating Expenses

Marketing

	Three Months Ended June 30, (in thousands)			Six Months Ended June 30, (in thousands)		
	2018	2017	Change	2018	2017	Change
Performance marketing	$ 1,141,893	$ 1,151,343	(0.8)%	$ 2,248,100	$ 2,133,515	5.4%
% of Total revenues in 2018 / % of Gross profit in 2017	32.3%	38.9%		34.8%	40.3%	
Brand marketing	$ 123,734	$ 130,321	(5.1)%	$ 225,136	$ 211,139	6.6%
% of Total revenues in 2018 / % of Gross profit in 2017	3.5%	4.4%		3.5%	4.0%	

We rely on performance marketing channels to generate a significant amount of traffic to our websites. Performance marketing expenses consist primarily of the costs of: (1) search engine keyword purchases; (2) referrals from meta-search and travel research websites; (3) affiliate programs; and (4) other performance-based marketing and incentives. For the three months ended June 30, 2018, performance marketing expenses decreased compared to the three months ended June 30, 2017, due to the strategy to improve performance marketing ROIs. For the six months ended June 30, 2018, performance marketing expenses increased compared to the six months ended June 30, 2017, due to the growth in performance marketing spend for the three months ended March 31, 2018, which was partially offset by the decrease in performance marketing spend for the three months ended June 30, 2018. We adjust our performance marketing spend based on our growth and profitability objectives and the expected performance of our performance marketing channels. Performance marketing as a percentage of total revenues for the three and six months ended June 30, 2018 decreased compared to the three and six months ended June 30, 2017 due to changes in the share of traffic by channel and increased performance marketing ROIs, as well as the timing of performance marketing expenses relative to when associated revenue is recognized. We recognize the substantial majority of our performance marketing expenses as they are incurred, which is typically in the quarter in which the associated reservations are booked. In contrast, we generally do not recognize revenue from these reservations until the travel is completed or, for periods beginning after December 31, 2017, until the travel begins, which can be in a quarter other than when the reservations are booked. In addition, we may from time to time, as we did during the third and fourth quarters of 2017 and in the first and second quarters of 2018, pursue a strategy of improving our performance marketing ROIs, which could negatively impact growth and positively impact performance marketing efficiency.

Brand marketing expenses consist primarily of television advertising, online video advertising (including the airing of our television advertising online) and online display advertising, as well as other marketing spend such as public relations, trade shows and sponsorships. For the three months ended June 30, 2018, brand marketing expenses decreased by 5.1% compared to the three months ended June 30, 2017, primarily due to decreased brand marketing expenses at Booking.com, partly due to decisions around the timing of brand marketing spend. For the six months ended June 30, 2018, brand marketing expenses increased by 6.6% compared to the six months ended June 30, 2017, primarily due to increased brand marketing expenses at Booking.com and KAYAK, which includes expenses related to the Momondo Group since its acquisition in July 2017. We increased our brand marketing expenses in order to increase awareness of our brands and grow the number of customers that come directly to our websites.

We have changed the presentation of advertising expenses and sales and marketing expenses in the Consolidated Statements of Operations (see Note 1 to the Unaudited Consolidated Financial Statements).

Sales and Other Expenses

	Three Months Ended June 30, (in thousands)			Six Months Ended June 30, (in thousands)		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Sales and other expenses	$ 203,593	$ 121,915	67.0%	$ 369,393	$ 231,514	59.6%
% of Total revenues in 2018 / % of Gross profit in 2017	5.8%	4.1%		5.7%	4.4%	

Sales and other expenses consist primarily of: (1) credit card and other payment processing fees associated with merchant transactions; (2) fees paid to third parties that provide call center, website content translations and other services; (3) provisions for customer chargebacks associated with merchant transactions; (4) provisions for bad debt, primarily related to agency accommodation commission receivables; and (5) customer relations costs. For the three and six months ended June 30, 2018, sales and other expenses, which are substantially variable in nature, increased compared to the three and six months ended June 30, 2017 due primarily to increased transaction volumes (primarily, increased merchant transaction volumes at Booking.com) and higher credit card chargebacks and bad debt expense related to accommodation commission receivables.

We have changed the presentation of advertising expenses and sales and marketing expenses in the Consolidated Statements of Operations (see Note 1 to the Unaudited Consolidated Financial Statements).

Personnel

	Three Months Ended June 30, (in thousands)			Six Months Ended June 30, (in thousands)		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Personnel	$ 522,250	$ 385,708	35.4%	$ 1,021,137	$ 736,738	38.6%
% of Total revenues in 2018 / % of Gross profit in 2017	14.8%	13.0%		15.8%	13.9%	

Personnel expenses consist of compensation to our personnel, including salaries, stock-based compensation, bonuses, payroll taxes, and employee health and other benefits. Personnel expenses increased during the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017, primarily due to increases in aggregate salaries of approximately $67 million and $146 million for the three and six months ended June 30, 2018, respectively, primarily related to headcount growth to support our businesses. Stock-based compensation was $74.5 million and $145.9 million for the three and six months ended June 30, 2018, respectively, compared to $66.9 million and $125.8 million for the three and six months ended June 30, 2017, respectively. Headcount increased, primarily at Booking.com, in the areas of information technology to support various business initiatives, such as alternative accommodations, marketing, payments and in-destination experiences, and customer service to support transaction growth.

General and Administrative

	Three Months Ended June 30, (in thousands)		Change	Six Months Ended June 30, (in thousands)		Change
	2018	2017		2018	2017	
General and administrative	$ 158,753	$ 143,882	10.3%	$ 320,892	$ 279,429	14.8%
% of Total revenues in 2018 / % of Gross profit in 2017	4.5%	4.9%		5.0%	5.3%	

General and administrative expenses consist primarily of: (1) occupancy and office expenses; (2) personnel-related expenses such as travel, relocation, recruiting and training expenses; and (3) fees for outside professionals, including litigation expenses. General and administrative expenses increased during the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017, due primarily to higher occupancy and office expenses associated with increased headcount to support the expansion of our international businesses.

Information Technology

	Three Months Ended June 30, (in thousands)		Change	Six Months Ended June 30, (in thousands)		Change
	2018	2017		2018	2017	
Information technology	$ 58,950	$ 44,831	31.5%	$ 119,391	$ 84,776	40.8%
% of Total revenues in 2018 / % of Gross profit in 2017	1.7%	1.5%		1.8%	1.6%	

Information technology expenses consist primarily of: (1) software license and system maintenance fees; (2) data communications and other expenses associated with operating our services; (3) outsourced data center costs; and (4) payments to outside consultants. Information technology expenses increased during the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017, due primarily to increased software license fees and data center costs, as well as the inclusion of the operating results of the Momondo Group since its acquisition in July 2017.

Depreciation and Amortization

	Three Months Ended June 30, (in thousands)		Change	Six Months Ended June 30, (in thousands)		Change
	2018	2017		2018	2017	
Depreciation and amortization	$ 106,666	$ 85,872	24.2%	$ 209,756	$ 169,302	23.9%
% of Total revenues in 2018 / % of Gross profit in 2017	3.0%	2.9%		3.2%	3.2%	

Depreciation and amortization expenses consist of: (1) amortization of intangible assets with determinable lives; (2) depreciation of computer equipment; (3) depreciation of internally developed and purchased software; and (4) depreciation of leasehold improvements, furniture and fixtures and office equipment. Depreciation and amortization expenses increased during the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017, primarily as a result of increased depreciation expenses due to capital expenditures for additional data center capacity and office build-outs to support growth and geographic expansion, the inclusion of intangible amortization for the Momondo Group since its acquisition in July 2017, and increased capitalized software development costs.

Other Income (Expense)

	Three Months Ended June 30, (in thousands)			Six Months Ended June 30, (in thousands)		
	2018	2017	Change	2018	2017	Change
Interest income	$ 45,690	$ 36,821	24.1 %	$ 92,569	$ 68,813	34.5 %
Interest expense	(64,837)	(60,942)	6.4 %	(135,072)	(116,659)	15.8 %
Net unrealized gains on marketable equity securities	21,849	—	N/A	76,363	—	N/A
Foreign currency transactions and other	(15,046)	(6,021)	149.9 %	(23,102)	(11,148)	107.2 %
Total	$ (12,344)	$ (30,142)	(59.0)%	$ 10,758	$ (58,994)	(118.2)%

For the three and six months ended June 30, 2018, interest income on cash equivalents and marketable securities increased, compared to the three and six months ended June 30, 2017, primarily due to higher yields and an increase in the average invested balance. Interest expense increased for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to interest expense attributable to our Senior Notes issued in March 2017 and August 2017 and higher interest expenses of our Euro-denominated debt resulting from the weakening of the U.S. Dollar against the Euro, partially offset by the maturity of our 1.0% Convertible Senior Notes in March 2018. See Note 8 to our Unaudited Consolidated Financial Statements.

Net unrealized gains on marketable equity securities for the three and six months ended June 30, 2018 are related to the change in fair value of our investment in Ctrip equity securities during the period. Pursuant to the adoption of the accounting update on financial instruments in the first quarter of 2018, changes in fair value of marketable equity securities are recognized in net income for periods beginning after December 31, 2017, rather than accumulated other comprehensive income (see Note 1 to our Unaudited Consolidated Financial Statements).

Foreign currency transactions and other includes foreign currency gains or losses on derivative contracts, foreign currency transaction gains or losses, including costs related to foreign currency transactions, net realized gains or losses on investments and other income or expense. Foreign currency transaction losses, including costs related to foreign currency transactions, resulted in foreign currency losses of $12.9 million and $20.4 million for the three and six months ended ended June 30, 2018, respectively, and foreign currency losses of $6.5 million and $13.0 million for the three and six months ended June 30, 2017, respectively.

Income Taxes

	Three Months Ended June 30, (in thousands)			Six Months Ended June 30, (in thousands)		
	2018	2017	Change	2018	2017	Change
Income tax expense	$ 231,539	$ 142,908	62.0%	$ 377,666	$ 214,895	75.7%
% of Earnings before income taxes	19.2%	16.6%		19.2%	15.5%	

Our 2018 effective tax rates differ from the 2018 U.S. federal statutory tax rate of 21%, primarily due to the benefit of the Netherlands Innovation Box Tax, U.S. state tax rate changes that resulted in a net decrease to deferred tax liabilities associated with acquired intangible assets, and current year excess tax benefits of $1.0 million and $14.5 million for the three and six months ended June 30, 2018, respectively, recognized from the vesting of equity awards, partially offset by the effect of higher international tax rates and U.S. federal and state tax associated with our current year international earnings, resulting from the introduction of the Tax Act. Our 2017 effective tax rates differ from the 2017 U.S. federal statutory tax rate of 35%, primarily as a result of lower international tax rates and current year excess tax benefits of $2.7 million and $12.6 million for three and six months ended June 30, 2017, respectively, recognized from the vesting of equity awards, partially offset by certain nondeductible expenses.

Our effective tax rates were higher for the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017, primarily as a result of U.S. federal and state tax associated with our current year international earnings, resulting from the introduction of the Tax Act, and the increase in the Netherlands Innovation Box Tax rate from 5% to 7% as disclosed below.

A portion of Booking.com's earnings during the three and six months ended June 30, 2018 and 2017 qualified for Innovation Box Tax treatment under Dutch tax law, which had a significant beneficial impact on the Company's effective tax rate for those periods. While we expect Booking.com to continue to qualify for Innovation Box Tax treatment with respect to a portion of its earnings for the foreseeable future, the loss of the Innovation Box Tax benefit, whether due to a change in tax law or a determination by the Dutch government that Booking.com's activities are not "innovative" or for any other reason, would substantially increase our effective tax rate and adversely impact our results of operations. During December 2017, legislation was enacted in the Netherlands that increased the Innovation Box Tax rate from 5% to 7%, effective for tax years beginning after December 31, 2017. See Part II Item 1A Risk Factors - " *We may not be able to maintain our 'Innovation Box Tax' benefit.*"

Liquidity and Capital Resources

At June 30, 2018, we had $16.3 billion in cash, cash equivalents and short-term and long-term investments in marketable securities. Approximately $11.1 billion is held by our international subsidiaries and is denominated primarily in U.S. Dollars and Euros and, to a lesser extent, British Pounds Sterling and other currencies. Cash equivalents and short-term and long-term investments in marketable securities are comprised of U.S. and international corporate bonds, U.S. and international government securities, high-grade commercial paper, U.S. government agency securities, convertible debt securities and American Depositary Shares ("ADSs") of Ctrip, money market funds, certificates of deposit and time deposits (see Note 6 to the Unaudited Consolidated Financial Statements).

As a result of the Tax Act (see Note 10 to our Unaudited Consolidated Financial Statements), we recorded a provisional transition tax liability of approximately $1.3 billion during the year ended December 31, 2017, inclusive of U.S. federal and state income taxes and international withholding taxes, net of the benefit of utilizing approximately $204 million of U.S. federal net operating loss carryforwards and approximately $46 million of other U.S. tax credit carryforwards. The majority of this liability is U.S. federal income tax and will be paid over eight years. At June 30, 2018, the remaining liability of $1.2 billion includes $1.1 billion in "Long-term U.S. transition tax liability" and approximately $93 million in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet.

In accordance with the Tax Act, generally future repatriation of our international cash will not be subject to a U.S. federal income tax liability as a dividend, but will be subject to U.S. state income taxes and international withholding taxes.

In April 2018, we paid $139.4 million, net of cash acquired, and issued shares of our common stock in an amount of $110.4 million in connection with an acquisition of a local activities and experiences booking software provider. In July 2018, we invested $500 million in preferred shares of Didi Chuxing, the leading mobile transportation and ride-hailing platform in China.

In July 2018, we signed a definitive agreement to acquire a hotel meta-search company and will pay approximately $140 million in cash in connection with this acquisition. The transaction is expected to close later this year, subject to regulatory approval and other closing conditions.

In June 2015, we entered into a $2.0 billion five-year unsecured revolving credit facility with a group of lenders. Borrowings under the revolving credit facility will bear interest, at our option, at a rate per annum equal to either (i) the adjusted LIBOR for the interest period in effect for such borrowing plus an applicable margin ranging from 0.875% to 1.50%; or (ii) the greatest of (a) Bank of America, N.A.'s prime lending rate, (b) the federal funds rate plus 0.50%, and (c) an adjusted LIBOR for an interest period of one month plus 1.00%, plus an applicable margin ranging from 0.00% to 0.50%. Undrawn balances available under the revolving credit facility are subject to commitment fees at the applicable rate ranging from 0.085% to 0.20%. The revolving credit facility provides for the issuance of up to $70.0 million of letters of credit as well as borrowings of up to $50.0 million on same-day notice, referred to as swingline loans. Borrowings under the revolving credit facility may be made in U.S. Dollars, Euros, British Pounds Sterling and any other foreign currency agreed to by the lenders. The proceeds of loans made under the facility will be used for working capital and general corporate purposes. At June 30, 2018, there were no borrowings outstanding and approximately $3.8 million of letters of credit issued under the facility.

For the three months ended March 31, 2018, in connection with the maturity of the remaining outstanding 2018 Notes, we paid $714.3 million to satisfy the aggregate principal amount due and paid an additional $773.2 million in satisfaction of the conversion value in excess of the principal amount.

Our 2020 Notes are convertible at the option of the holders at June 30, 2018, and, accordingly, we reported the carrying value of the 2020 Notes as a current liability in our Unaudited Consolidated Balance Sheet at June 30, 2018. If note holders exercise their option to convert, we would be required to repay the principal amount of the 2020 Notes in cash and may deliver shares of common stock or cash, at our option, to satisfy the conversion value in excess of the principal amount.

In the first quarter of 2018, the Board of Directors authorized a program to repurchase up to $8.0 billion of our common stock, in addition to amounts previously authorized. During the six months ended June 30, 2018, we repurchased 945,693 shares of our common stock for an aggregate cost of $1.9 billion. At June 30, 2018, we had a remaining aggregate amount of $8.6 billion authorized by our Board of Directors to repurchase our common stock. We may from time to time make additional repurchases of our common stock, depending on prevailing market conditions, alternate uses of capital and other factors.

In September 2016, we signed a turnkey agreement to construct an office building in the Netherlands for the future headquarters of Booking.com for approximately 270 million Euros. Upon signing the agreement, we paid approximately 48 million Euros to the developer, principally related to acquired land-use rights. We paid approximately 34 million Euros (approximately $41 million as discussed below) in the first quarter of 2018 and expect to pay approximately 27 million Euros in the third quarter of 2018, almost entirely related to building construction. The remaining amount of approximately 161 million Euros related to building construction under the turnkey agreement will be paid periodically from the fourth quarter of 2018 until the expected completion of the building in early 2021. As of June 30, 2018, required future lease payments for the land-use rights to the Municipality in Amsterdam of approximately 78 million Euros, which is in addition to the 270 million Euros related to the turnkey agreement, will be recognized as rent expense on a straight-line basis over the remaining 48-year term of the lease. We will also make additional capital expenditures to fit out and furnish the office space. See Note 12 to the Unaudited Consolidated Financial Statements.

Cash Flow Analysis

Net cash provided by operating activities for the six months ended June 30, 2018 was $2.3 billion, resulting from net income of $1.6 billion, a favorable impact of $354.8 million for non-cash items and a favorable impact of $350.9 million for changes in working capital and other assets and liabilities. For the six months ended June 30, 2018, prepaid expenses and other current assets increased by $574.2 million, primarily related to the remaining balance of prepayments of Netherlands income taxes of approximately $392 million to earn prepayment discounts, principally by Booking.com, and the increase in prepayment to suppliers of approximately $113 million. For the six months ended June 30, 2018, accounts receivable increased by $391.8 million and accounts payable, accrued expenses and other current liabilities increased by $1.3 billion, primarily related to increases in business volumes. Due to the typical seasonality of our business, our gross bookings and revenues are generally higher in the second quarter of the year than in the fourth quarter of the year which typically results in higher accounts receivable, deferred merchant bookings, accounts payable and accrued expenses at June 30 compared to December 31. Non-cash items were principally associated with stock-based compensation expense, depreciation and amortization and net unrealized gains on marketable equity securities.

Net cash provided by operating activities for the six months ended June 30, 2017 was $1.6 billion, resulting from net income of $1.2 billion and a favorable impact of $321.5 million for non-cash items and favorable changes in working capital and other assets and liabilities of $104.5 million. For the six months ended June 30, 2017, prepaid expenses and other current assets increased by $438.6 million, primarily related to the remaining balance of prepayments of Netherlands income taxes of approximately $318 million to earn prepayment discounts, principally by Booking.com. For the six months ended June 30, 2017, accounts receivable increased by $333.5 million and accounts payable, accrued expenses and other current liabilities increased by $873.7 million, primarily related to increases in business volumes. Non-cash items were principally associated with stock-based compensation expense, depreciation and amortization, amortization of debt discount on our convertible notes and deferred income taxes.

Net cash provided by investing activities was $1.8 billion for the six months ended June 30, 2018, principally resulting from net sales of investments of $2.1 billion, partially offset by acquisitions and and other investments, net of cash acquired, of $139.4 million. Net cash used in investing activities was $1.5 billion for the six months ended June 30, 2017, principally resulting from net purchases of investments of $1.4 billion. Cash invested in the purchase of property and equipment was $235.0 million and $147.3 million in the six months ended June 30, 2018 and 2017, respectively. Cash invested in the purchase of property and equipment for the six months ended June 30 2018 includes a payment of approximately $41 million for constructing Booking.com's future headquarters in the first quarter of 2018.

Net cash used in financing activities was $3.4 billion for the six months ended June 30, 2018, which primarily consisted of payments for the repurchase of common stock of $1.9 billion and payments for the conversion of Senior Notes of $1.5 billion. Net cash provided by financing activities was $420.4 million for the six months ended June 30, 2017, which primarily consisted of total proceeds of $1.1 billion from the issuance of Senior Notes, partially offset by payments for repurchase of common stock of $555.3 million and payments related to the conversion of Senior Notes of $83.5 million.

Contingencies

French tax authorities conducted an audit of the years 2003 through 2012 to determine whether Booking.com is in compliance with its tax obligations in France. Booking.com received formal assessments in December 2015 in which the French tax authorities claim that Booking.com has a permanent establishment in France and seek to recover unpaid income taxes and value-added taxes of approximately 356 million Euros, the majority of which would represent penalties and interest. We believe that Booking.com has been, and continues to be, in compliance with French tax law and we are contesting the assessments. Our objection to the assessment was denied by the French tax authorities. If we are unable to resolve the matter with the French tax authorities, we would expect to challenge the assessments in the French courts. In order to contest the assessments in court, we may be required to pay, upfront, the full amount or a significant part of any such assessments, though such payment would not constitute an admission by us that we owe the taxes. Alternatively, any resolution or settlement of the matter with the French tax authorities may also require a payment as part of such resolution or settlement. In each case, any such payment would not necessarily constitute an admission by us that we owe the taxes. French tax authorities have begun a similar audit of the tax years 2013 through 2015, which could result in additional assessments. See Part II Item 1A Risk Factors - "*We may have exposure to additional tax liabilities.*"

Off-Balance Sheet Arrangements

At June 30, 2018, we did not have any off-balance sheet arrangements 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Sections of this Form 10-Q including, in particular, our Management's Discussion and Analysis of Financial Condition and Results of Operations above and the Risk Factors contained in Part II Item 1A hereof, contain forward-looking statements. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict; therefore, actual results could differ materially from those described in the forward-looking statements.

Expressions of future goals and expectations and similar expressions, including "may," "will," "should," "could," "expects," "plans," "anticipates," "intends," "believes," "estimates," "predicts," "potential," "targets," or "continue," reflecting something other than historical fact are intended to identify forward-looking statements. Our actual results could differ materially from those described in the forward-looking statements for various reasons including the risks we face which are more fully described in Part II Item 1A, Risk Factors. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the reports and documents we file or furnish from time to time with the Securities and Exchange Commission, particularly our Annual Report on Form 10-K for the year ended December 31, 2017, and our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We manage our exposure to interest rate risk and foreign currency risk through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. We use currency exchange derivative contracts to manage short-term foreign currency risk.

The objective of our policies is to mitigate potential income statement, cash flow and fair value exposures resulting from possible future adverse fluctuations in rates. We evaluate our exposure to market risk by assessing the anticipated near-term and long-term fluctuations in interest rates and foreign exchange rates. This evaluation includes the review of leading market indicators, discussions with financial analysts and investment bankers regarding current and future economic conditions and the review of market projections as to expected future rates. We utilize this information to determine our own investment strategies as well as to determine if the use of derivative financial instruments is appropriate to mitigate any potential future market exposure that we may face. 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 do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. To the extent that changes in interest rates and currency exchange rates affect general economic conditions, we would also be affected by such changes.

We did not experience any material changes in interest rate exposures during the three months ended June 30, 2018.

Fixed-rate investments are subject to unrealized gains and losses due to interest rate volatility. We performed a sensitivity analysis to determine the impact a change in interest rates would have on the fair value of our available-for-sale investments assuming an adverse change of 100 basis points. A hypothetical 100 basis point (1.0%) increase in interest rates would have resulted in a decrease in the fair values of our investments at June 30, 2018 of approximately $167 million. These hypothetical losses would only be realized if we sold the investments prior to their maturity. This amount excludes our investment in Ctrip.com International Ltd. ("Ctrip") senior convertible notes, which are more sensitive to the market price volatility of Ctrip's American Depositary Shares ("ADSs") than changes in interest rates. The fair value of our Ctrip senior convertible notes will most likely increase as the market price of Ctrip's ADSs increases and decrease as the market price of Ctrip's ADSs falls.

At June 30, 2018, the outstanding aggregate principal amount of our debt was approximately $8.9 billion. We estimate that the market value of such debt was approximately $9.7 billion at June 30, 2018. A substantial portion of the market value of our debt in excess of the outstanding principal amount relates to the conversion premium on our outstanding convertible notes.

We conduct a significant portion of our business outside the United States through subsidiaries with functional currencies other than the U.S. Dollar (primarily Euro). As a result, we face exposures to adverse movements in currency exchange rates as the operating results of our international operations are translated from local currencies into U.S. Dollars upon consolidation. If the U.S. Dollar weakens against the local currencies, the translation of these foreign-currency-denominated balances will result in increased net assets, gross bookings, revenues, operating expenses, and net income. Similarly, our net assets, gross bookings, revenues, operating expenses, and net income will decrease if the U.S. Dollar strengthens against the local currencies. Additionally, foreign exchange rate fluctuations on transactions, denominated in currencies other than the functional currency, result in gains and losses that are reflected in our Consolidated Statements of Operations.

As a result of currency exchange rate changes, our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income are higher as expressed in U.S. Dollars for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017. Since our expenses are generally denominated in foreign currencies on a basis similar to our revenues, our operating margins have not been significantly impacted by currency fluctuations. The aggregate principal value of our Euro-denominated long-term debt, and accrued interest thereon, provide a hedge against the impact of currency exchange rate fluctuations on the net assets of certain of our Euro functional currency subsidiaries.

From time to time, we enter into foreign currency derivative contracts to minimize the impact of short-term foreign currency fluctuations on our consolidated operating results. Our derivative contracts principally address foreign currency translation risks for the Euro, the British Pound Sterling and certain other currencies versus the U.S. Dollar. At June 30, 2018 and December 31, 2017, there were no such outstanding derivative contracts.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(e), occurred during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

A description of material legal proceedings to which we are a party, and updates thereto, is included in Note 12 to our Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for the three months ended June 30, 2018, and is incorporated into this Item 1 by reference thereto.

Item 1A. Risk Factors

The following risk factors and other information included in this Quarterly Report should be carefully considered. 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 following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

Declines or disruptions in the travel industry could adversely affect our business and financial performance.

Our financial results and prospects are almost entirely dependent upon the sale of travel services. Travel, including accommodation (including hotels, motels, resorts, homes, apartments and other unique places to stay), rental car and airline ticket reservations, is significantly dependent on discretionary spending levels. As a result, sales of travel services tend to decline during general economic downturns and recessions and times of political or economic uncertainty as consumers engage in less discretionary spending, are concerned about unemployment or inflation, have reduced access to credit or experience other concerns or effects that reduce their ability or willingness to travel.

Perceived or actual adverse economic conditions, including slow, slowing or negative economic growth, unemployment rates, inflation and weakening currencies, and concerns over government responses such as higher taxes and reduced government spending, could impair consumer spending and adversely affect travel demand.

Political uncertainty, conditions or events, such as the United Kingdom's decision to leave the European Union ("Brexit") and concerns regarding certain E.U. members with sovereign debt default risks, can also negatively affect consumer spending and adversely affect travel demand. At times, we have experienced volatility in transaction growth rates, increased cancellation rates and weaker trends in hotel average daily rates ("ADRs") across many regions of the world, particularly in those countries that appear to be most affected by economic and political uncertainties, which we believe are due at least in part to these macro-economic conditions and concerns. Economic or political disruptions could cause, contribute to or be indicative of deteriorating macro-economic conditions, which in turn could negatively affect travel to or from such countries or the travel industry in general and therefore have an adverse impact on our results of operations. While lower occupancy rates have historically resulted in accommodation providers increasing their distribution of accommodation reservations through third-party intermediaries such as us, our remuneration for accommodation reservation transactions changes proportionately with price, and therefore, lower average daily rates generally have a negative effect on our accommodation reservation business and a negative effect on our revenues.

These and other macro-economic uncertainties, such as oil prices, geopolitical tensions and differing central bank monetary policies, have led to significant volatility in the exchange rates between the U.S. Dollar and the Euro, the British Pound Sterling and other currencies. Significant fluctuations in currency exchange rates, stock markets and oil prices can also impact consumer travel behavior. For example, although lower oil prices may lead to increased travel activity as consumers have more discretionary funds and airline fares decrease, declines in oil prices may be indicative of broader macro-economic weakness, which in turn could negatively affect the travel industry and our business. Conversely, higher oil prices may result in higher airfares, which can negatively affect the travel industry and our business.

Since the United Kingdom's Brexit vote, global markets and foreign exchange rates have experienced increased volatility, including a decline in the value of the British Pound Sterling as compared to the U.S. Dollar. Upon leaving the European Union, among other things, the United Kingdom could lose access to the single European Union market and travel between the United Kingdom and European Union countries could be restricted. We could face new regulatory costs and challenges if U.K. regulations and policies diverge from those of the European Union. Since the timing and terms of the United Kingdom's exit from the European Union are uncertain, we are unable to predict the effect Brexit will have on our business (including the effect on non-U.K. citizens employed by us in the United Kingdom) and results of operations. The United Kingdom's decision to leave the European Union could result in other member countries also determining to leave, which could lead to added economic and political uncertainty and devaluation or eventual abandonment of the Euro common currency, any of which could have a negative impact on travel and therefore our business and results of operations.

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.

In addition, unforeseen events beyond our control, such as oil prices, stock market volatility, terrorist attacks, unusual or extreme weather or natural disasters such as earthquakes, hurricanes, tsunamis, floods, droughts and volcanic eruptions, travel-related health concerns including pandemics and epidemics such as Ebola, Zika and MERS, political instability, changes in economic conditions, regional hostilities, imposition of taxes or surcharges by regulatory authorities, changes in trade or immigration policies or travel-related accidents, can disrupt travel or otherwise result in declines in travel demand. Because these events or concerns, and the full impact of their effects, are largely unpredictable, they can dramatically and suddenly affect travel behavior by consumers, and therefore demand for our services, which can adversely affect our business and results of operations. Also, as European countries respond to an increased flow of migrants from the Middle East, travel between countries within the European Union and to and from the region could be subject to increased restrictions or the closing of borders, which could negatively impact travel to, from or within the European Union and adversely affect our business and results of operations. Certain jurisdictions, particularly in Europe, are considering regulations intended to address the issue of "overtourism," including by restricting access to city centers or popular tourist destinations or limiting accommodation offerings in surrounding areas, such as by restricting construction of new hotels or the renting of homes or apartments. Such regulations could adversely affect travel to, or our ability to offer accommodations in, such markets, which could negatively impact our business, growth and results of operations. The United States has implemented or proposed, or is considering, various travel restrictions and actions that could affect U.S. trade policy or practices, which could also adversely affect travel to or from the United States. Future terrorist attacks, natural disasters, health concerns, civil or political unrest or other events outside our control could disrupt our business and operations and adversely affect our results of operations.

Intense competition could reduce our market share and harm our financial performance.

We compete globally with both online and traditional travel and restaurant reservation and related services. The markets for the services we offer are intensely competitive, and current and new competitors can launch new services at a relatively low cost. Some of our current and potential competitors, such as Google, Apple, Alibaba, Tencent, Amazon and Facebook, have access to significantly greater and more diversified resources than we do, and they may be able to leverage other aspects of their businesses (e.g., search or mobile device businesses) to enable them to compete more effectively with us. For example, Google has entered various aspects of the online travel market, including by establishing a flight meta-search product ("Google Flights") and a hotel meta-search product ("Google Hotel Ads") that are growing rapidly, as well as its "Book on Google" reservation functionality and its Google Trips app.

We currently, or may potentially in the future, compete with a variety of companies, including:

- online travel reservation services such as Expedia, Hotels.com, Hotwire, Orbitz, Travelocity, Wotif, Cheaptickets, ebookers, HotelClub, RatesToGo and CarRentals.com, which are owned by Expedia; Hotel Reservation Service (HRS) and hotel.de, which are owned by Hotel Reservation Service; and AutoEurope, CarTrawler, Ctrip (in which we hold a minority interest), eLong (in which Ctrip holds a significant minority interest), ezTravel (in which Ctrip holds a majority interest), Meituan Dianping (in which we hold a small minority interest), MakeMyTrip, Yatra, Cleartrip, Traveloka (in which Expedia holds a minority interest), Webjet, Rakuten, Jalan (which is owned by Recruit), ViajaNet, Submarino Viagens, Despegar/Decolar (in which Expedia holds a minority interest), Fliggy (operated by Alibaba), 17u.com, HotelTonight, CheapOair and eDreams ODIGEO;

- online accommodation search and/or reservation services, such as Airbnb, HomeAway (which is owned by Expedia) and Tujia (in which Ctrip and Expedia hold investments), currently focused primarily on alternative accommodations, including individually owned properties such as homes and apartments;

- large online companies, including search, social networking and marketplace companies such as Google, Facebook, Alibaba, Tencent, Amazon and Baidu;

- traditional travel agencies, travel management companies, wholesalers and tour operators, many of which combine physical locations, telephone services and online services, such as Carlson Wagonlit, American Express, BCD Travel, Concur (which is owned by SAP), Thomas Cook, TUI, and Hotelbeds (which acquired Tourico and GTA in 2017), as well as thousands of individual travel agencies around the world;

- travel service providers such as accommodation providers, rental car companies and airlines, many of which have their own branded websites to which they drive business, including large hotel chains such as Marriott International, Hilton and Hyatt Hotels and emerging hotel chains such as OYO Rooms, as well as joint efforts by travel service providers such as Room Key, an online hotel reservation service owned by several major hotel companies;

- online travel search and price comparison services (generally referred to as "meta-search" services), such as Google Flights, Google Hotel Ads, TripAdvisor, trivago (in which Expedia holds a majority interest), Qunar (which is controlled by Ctrip), Skyscanner (in which Ctrip holds a majority interest) and HotelsCombined (which we have entered into an agreement to acquire, subject to regulatory approval and satisfaction of closing conditions);

- online restaurant reservation services, such as TripAdvisor's LaFourchette, Yelp's SeatMe, Zomato, Bookatable (which is owned by Michelin), Quandoo (which is owned by Recruit) and Resy (in which Airbnb holds a minority interest);

- companies offering new rental car business models or car- or ride-sharing services that affect demand for rental cars, some of which have developed innovative technologies to improve efficiency of point-to-point transportation and extensively utilize mobile platforms, such as Uber, Lyft, Gett, Zipcar (which is owned by Avis), BlaBlaCar, Didi Chuxing (in which we hold a small minority interest), Grab and Ola; and

- companies offering technology services and software solutions to accommodation providers, including large global distribution systems, or GDSs, such as Amadeus, Sabre and Travelport.

Google, the world's largest search engine and one of the world's largest companies and other large, established companies with substantial resources and expertise in developing online commerce and facilitating internet traffic have launched search, meta-search and/or reservation booking services and may create additional inroads into online travel. Google's travel meta-search services, Google Hotel Ads and Google Flights, are growing rapidly and have achieved significant market share in a relatively short time. Meta-search services leverage their search technology to aggregate travel search results for the consumer's specific itinerary across travel service provider (e.g., accommodations, rental car companies or airlines), online travel company ("OTC") and other travel websites and, in many instances, compete directly with us for customers. Meta-search services intend to appeal to consumers by showing broader travel search results than may be available through OTCs or other travel websites, which could lead to travel service providers or others gaining a larger share of search traffic. Google leverages its general search business to promote its meta-search offerings by showing meta-search results at the top of its organic search results. Further, TripAdvisor and trivago, two other leading meta-search companies, support their meta-search services with significant brand and performance marketing. Through our KAYAK meta-search service, we compete directly with other meta-search services. KAYAK depends on access to information related to travel service pricing, schedules, availability and other related information from OTCs and travel service providers. To the extent OTCs or travel service providers do not provide such information to KAYAK, our business and results of operations could be harmed.

Consumers may favor travel services offered by meta-search websites or search companies over OTCs, which could reduce traffic to our travel reservation websites, increase consumer awareness of our competitors' brands and websites and increase our marketing and other customer acquisition costs. To the extent any such consumer behavior leads to growth in our KAYAK meta-search business, such growth may not result in sufficient increases in revenues from our KAYAK meta-search business to offset any related decrease in revenues or increase in marketing and other customer acquisition costs experienced by our OTC brands. Further, meta-search services may evolve into more traditional OTCs by offering consumers the ability to make travel reservations directly through their websites. For example, TripAdvisor allows consumers to make a reservation at some accommodations while staying on TripAdvisor through its "Instant Booking" offering, which includes participation by many of the leading global hotel chains. We have been participating in Instant Booking since 2015, however such participation may not result in substantial incremental bookings and could cannibalize business that would otherwise come to us through other ad offerings on TripAdvisor, directly (including after a consumer first visits TripAdvisor) or through other channels, some of which may be more profitable to us than reservations generated through Instant Booking. To the extent consumers book travel services through a service such as TripAdvisor's Instant Booking, Google's "Book on Google," a meta-search website or directly with a travel service provider after visiting a meta-search website or meta-search utility on a traditional search engine without using an OTC like us, or if meta-search services limit our participation within their search results or evolve into more traditional OTCs, we may need to increase our marketing or other customer acquisition costs to maintain or grow our reservation bookings and our business and results of operations could be adversely affected.

There has been a proliferation of new channels through which accommodation providers can offer reservations. For example, companies such as Airbnb and HomeAway (which is owned by Expedia) offer services providing alternative accommodation property owners, particularly individuals, an online place to list their accommodations where travelers can search and book such properties and compete directly with our alternative accommodation services. In addition, Airbnb has begun offering hotel reservations through its online and mobile platforms. Further, meta-search services may lower the cost for new companies to enter the market by providing a distribution channel without the cost of promoting the new entrant's brand to drive consumers directly to its website. If any of these services are successful in attracting consumers who would otherwise use our services, our business and results of operations would be harmed.

Although we believe that providing an extensive collection of properties, excellent customer service and an intuitive, easy to use website or mobile experience are important factors influencing a consumer's decision to make a reservation, for many consumers, particularly in certain markets, the price of the travel service is the primary factor determining whether a consumer will book a reservation. As a result, it is increasingly important to offer travel services, such as hotel room rates, at competitive prices, whether through discounts, coupons, closed-user group rates or loyalty programs, or otherwise. Discounting and couponing coupled with a high degree of consumer shopping behavior is particularly common in Asian markets. In some cases, our competitors are willing to make little or no profit on a transaction, or offer travel services at a loss, in order to gain market share. As a result, in certain markets we may need to provide discounts or other incentives in order to be competitive, which may make it difficult for us to maintain or grow market share and to maintain historical profit margins. If we are unable to effectively compete in these markets, our market share, business and results of operations could be materially adversely affected.

Travel service providers, including hotel chains, rental car companies and airlines with which we conduct business, compete with us in online channels to drive consumers to their own websites in lieu of third-party distributors such as us. Travel service providers may charge lower prices and, in some instances, offer advantages such as loyalty points or special discounts to members of closed user groups (such as loyalty program participants or consumers with registered accounts), any of which could make their offerings more attractive to consumers than our services. For example, many large hotel chains have instituted additional initiatives, such as increased discounting and incentives, to encourage consumers to book accommodations directly through their websites. Discounting may increase as competition authorities seek to allow increased pricing flexibility among providers of travel service reservations. We may need to offer similar advantages to maintain or grow our reservation bookings, which could adversely impact our profitability. Further, consolidation among travel service providers, such as Marriott International's acquisition in 2017 of Starwood Hotels & Resorts, could result in lower rates of commission paid to OTCs, increased discounting and greater incentives for consumers to join closed user groups as such travel service providers expand their offerings. If we are not as effective as our competitors (including hotel chains) in offering discounted prices to closed user groups or if we are unable to entice members of our competitors' closed user groups to use our services, our ability to grow and compete could be harmed.

We are exposed to fluctuations in currency exchange rates.

We conduct a substantial majority of our business outside the United States but we report our results in U.S. Dollars. As a result, we face exposure to movements in currency exchange rates as the financial results of our international businesses are translated from local currency (principally Euros and British Pounds Sterling) into U.S. Dollars. When the U.S. Dollar strengthens against other currencies in which we transact, as it generally did in 2015 and 2016, our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income are lower as expressed in U.S. Dollars. When the U.S. Dollar weakens against other currencies in which we transact, as it generally did in 2017 and so far in 2018, our foreign-currency-denominated net assets, gross bookings, revenues, operating expenses and net income are higher as expressed in U.S. Dollars.

Recent years have seen significant volatility in the exchange rate between the Euro, the British Pound Sterling, the U.S. Dollar and other currencies. Significant fluctuations in currency exchange rates can affect consumer travel behavior. For example, the strengthening of the U.S. Dollar relative to the Euro in 2015 made it more expensive for Europeans to travel to the United States, and the dramatic depreciation of the Russian Ruble in 2014 and 2015 made it more expensive for Russians to travel to Europe and most other non-Ruble destinations. Consumers traveling from a country whose currency has weakened against other currencies may book lower ADR accommodations, choose to shorten or cancel their international travel plans or choose to travel domestically rather than internationally, any of which could adversely affect our gross bookings, revenues and results of operations, in particular when expressed in U.S. Dollars.

Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses that are reflected in our financial results.

Volatility in foreign exchange rates and its impact on consumer behavior, which may differ across regions, make 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 our results of operations.

We face risks related to the growth rate and the global expansion of our business.

We derive a substantial portion of our revenues, and have significant operations, outside the United States. Our international businesses include the Netherlands-based accommodation reservation service Booking.com (including Rentalcars.com, which began operating as part of Booking.com on January 1, 2018), the Asia-based accommodation reservation service agoda.com and, to a lesser extent, KAYAK's international meta-search services and OpenTable's international restaurant reservation business. Our international OTC operations have historically achieved significant year-over-year growth in their gross bookings. These growth rates, which have contributed significantly to our growth in consolidated revenues and earnings, have declined, a trend we expect to continue as the absolute level of our gross bookings increases. Other factors may also slow the growth rates of our international businesses, including, for example, worldwide or regional economic conditions, strengthening of the U.S. Dollar versus the Euro, the British Pound Sterling and other currencies, declines in ADRs, increases in cancellations, adverse changes in travel market conditions and the competitiveness of the market. A decline in the growth rates of our international businesses would have a negative impact on our revenue and earnings growth rates and, as a consequence, our stock price.

Our strategy involves continued expansion in regions throughout the world. Many of these regions have different economic conditions, customs, 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, and we are subject to associated risks typical of international businesses. International markets may have strong local competitors with an established brand and travel service provider or restaurant relationships that may make expansion in that market difficult and costly and take more time than anticipated. In addition, compliance with legal, regulatory or tax requirements in multiple jurisdictions places demands on our time and resources, and we may nonetheless experience unforeseen and potentially adverse legal, regulatory or tax consequences. In some markets such as China, legal and other regulatory requirements may prohibit or limit participation by foreign businesses, such as by making foreign ownership or management of internet or travel-related businesses illegal or difficult, or may make direct participation in those markets uneconomic, which could make our entry into and expansion in those markets difficult or impossible, require that we work with a local partner or result in higher operating costs. If we are unsuccessful in rapidly expanding in new and existing markets and effectively managing that expansion, our business and results of operations could be adversely affected.

Certain markets in which we operate that are in earlier stages of development have lower operating margins compared to more mature markets, which could have a negative impact on our overall margins as these markets increase in size over time. Also, we intend to continue to invest in adding accommodations available for reservation on our websites, such as hotels, motels, resorts, homes, apartments and other unique places to stay. Many of the newer accommodations we add to our travel reservation services, especially in highly-penetrated markets, may have fewer rooms or higher credit risk and may appeal to a smaller subset of consumers (e.g., hostels and bed and breakfasts). Because alternative accommodations are often either a single unit or a small collection of independent units, these properties generally represent more limited booking opportunities than hotels, motels and resorts, which generally have more units to rent per property. Further, alternative accommodations in general may be subject to increased seasonality due to local tourism seasons, weather or other factors or may not be available at peak times due to use by the property owners, and we may also experience lower profit margins with respect to these properties due to certain additional costs related to offering these accommodations on our websites. As we increase our alternative accommodation business, these different characteristics could negatively impact our profit margins; and, to the extent these properties represent an increasing percentage of the properties added to our websites, we expect that our gross bookings growth rate and property growth rate will continue to diverge over time (since each such property has fewer booking opportunities). As a result of the foregoing, as the percentage of alternative accommodation properties increases, the number of reservations per property will likely continue to decrease.

In addition, as our alternative accommodation reservation business grows, we may incur increasing numbers of complaints related to non-existent properties or properties that are significantly different than as described in the listing, as well as claims of liability based on events occurring at such properties such as robbery, injury, death and other similar events. Such complaints or claims could result in negative publicity and increased costs, which could adversely affect our reputation, business and results of operations. Further, the regulatory environment related to some alternative accommodations such as homes and apartments is evolving and laws, regulations or property association rules could impose restrictions or burdens on these property owners that limit or negatively affect their ability to rent their properties. Some jurisdictions have adopted or are considering statutes or ordinances that prohibit owners and managers from renting certain properties for fewer than a stated number of consecutive days or for more than an aggregate total number of days per year. In addition, several jurisdictions have adopted or are considering adopting statutes or ordinances requiring online platforms that list certain alternative accommodations to obtain a license to list such accommodations and/or to comply with other restrictions or requirements. Such regulations could negatively impact the growth and/or size of our alternative accommodation reservation business.

We believe that the increase in the number of accommodation providers that participate on our websites, and the corresponding access to accommodation room nights, has been a key driver of the growth of our accommodation reservation business. The growth in our accommodation bookings typically makes us an attractive source of consumer demand for our accommodation providers. However, accommodation providers may wish to limit the amount of business that flows through a single distribution channel. Also, certain jurisdictions, particularly in Europe, are considering regulations intended to address the issue of "overtourism," including by restricting accommodation offerings in city centers or near popular tourist destinations, such as by restricting construction of new hotels or the renting of homes or apartments. Such restrictions could also include limiting the number of tourists permitted to visit and stay near popular areas during peak seasons or as a general matter. As a result, we may experience constraints on the number of listings, or accommodation room nights, actually available to us, which could negatively impact our growth rate and results of operations.

The number of our employees worldwide has grown from approximately 6,900 at December 31, 2012 to over 24,000 at June 30, 2018, which growth is mostly comprised of hires by our international operations. We may not be able to hire, train, retain, motivate and manage required personnel, which may limit our growth, damage our reputation, negatively affect our financial performance, and otherwise harm our business. In addition, expansion increases the complexity of our business and places additional strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions. Our current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage this growth and our future operations, especially as we employ personnel in multiple geographic locations around the world.

We rely on performance and brand marketing channels to generate a significant amount of traffic to our websites and grow our business.

We believe that maintaining and strengthening our brands are important aspects of our efforts to attract and retain customers. We have invested considerable money and resources in the establishment and maintenance of our brands, and we will continue to invest resources in brand marketing and other brand building efforts to preserve and enhance consumer awareness of our brands. In addition, effective performance marketing has been an important factor in our growth, and we believe it will continue to be important to our future success. As our competitors spend increasingly more on advertising and other marketing efforts, we are required to spend more in order to maintain our brand recognition and, in the case of performance marketing, to maintain and grow traffic to our websites through performance marketing channels. We may not be able to successfully maintain or enhance consumer awareness and acceptance of our brands, and, even if we are successful in our branding efforts, such efforts may not be cost-effective. For instance, we have observed increased brand marketing by OTCs, meta-search services and travel service providers, particularly in North America and Europe, which may make our brand marketing efforts more expensive and less effective. If we are unable to maintain or enhance consumer awareness and acceptance of our brands in a cost-effective manner, our business, market share and results of operations would be materially adversely affected.

Our online performance marketing efficiency, expressed as performance marketing expense as a percentage of revenues, is impacted by a number of factors that are subject to variability and that are, in some cases, outside of our control, including ADRs, costs per click, cancellation rates, foreign exchange rates, our ability to convert paid traffic to booking customers and the extent to which consumers come directly to our websites or mobile apps for bookings. For example, competition for desired rankings in search results and/or a decline in ad clicks by consumers could increase our costs-per-click and reduce our performance marketing efficiency. We use third-party websites, including online search engines (primarily Google), meta-search and travel research services and affiliate marketing as primary means of generating traffic to our websites. Growth of some of these channels has slowed. Our performance marketing expense has increased significantly and our performance marketing efficiency has declined in recent years, a trend we expect to continue, though the rate of decrease may fluctuate and there may be periods of stable or increasing ROIs from time to time. Further, at times we may pursue a strategy of increasing performance marketing ROIs, which could negatively affect our gross bookings and revenue growth rates. When evaluating our performance marketing spend, we consider several factors for each channel, such as the customer experience on the advertising platform, the incrementality of the traffic we receive and the anticipated repeat rate from a particular platform, as well as other factors. Our strategy of improving performance marketing ROIs, along with factors such as competitors' actions in the bidding environment, the amount of marketing invested by these channels to generate demand and overall performance platform traffic growth trends, which have shown volatility and long-term deceleration of growth rates, may also impact growth rates for performance marketing channels. Any reduction in our performance marketing efficiency could have an adverse effect on our business and results of operations, whether through reduced revenues or revenue growth, or through performance marketing expenses increasing faster than revenues and thereby reducing margins and earnings growth.

We believe that a number of factors could cause consumers to increase their shopping activity before making a travel purchase. Increased shopping activity reduces our performance marketing efficiency and effectiveness because traffic becomes less likely to result in a reservation through our website, and such traffic is more likely to be obtained through paid performance marketing channels than through direct channels. Further, consumers may favor travel services offered by search or meta-search companies over OTCs, which could reduce traffic to our travel reservation websites, increase consumer awareness of our competitors' brands and websites, increase our marketing and other customer acquisition costs and adversely affect our business, margins and results of operations. To the extent any such increased shopping behavior leads to growth in our KAYAK meta-search business, such growth may not result in sufficient increases in revenues from our KAYAK meta-search business to offset any related decrease in revenues or increase in marketing and other customer acquisition costs experienced by our OTC brands.

Our business could be negatively affected by changes in internet search and meta-search algorithms and dynamics or traffic-generating arrangements.

We use Google to generate a significant portion of the traffic to our websites, and, to a lesser extent, we use other search and meta-search websites to generate traffic to our websites, principally through pay-per-click marketing campaigns. The pricing and operating dynamics on these search and meta-search websites can experience rapid change commercially, technically and competitively. For example, Google frequently updates and changes the logic which determines the placement and display of results of a consumer's search, such that the placement of links to our websites can be negatively affected and our costs to improve or maintain our placement in search results can increase. In June 2017, the European Commission fined Google 2.4 billion Euros for breaching European Union antitrust rules by giving its comparison shopping service priority placement in Google search results. Google has appealed the European Commission's decision, and it is not yet clear how or whether the decision will affect Google's ranking of its travel meta-search services (Google Flights and Google Hotel Ads) in Google search results. Changes by Google in how it presents travel search results, including its promotion of its travel meta-search services, or the manner in which it conducts the auction for placement among search results, may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our websites, which in turn would have an adverse effect on our business, market share and results of operations. Similarly, changes by our other search and meta-search partners in how they present travel search results or the manner in which they conduct the auction for placement among search results may be competitively disadvantageous to us and may impact our ability to efficiently generate traffic to our websites. In addition, if travel search traffic declines or grows less quickly than in the past, our ability to efficiently generate traffic to our websites through performance marketing on general search platforms may be adversely affected, which could have an adverse effect on our business and results of operations.

In addition, we purchase website traffic from a number of other sources, including some operated by our competitors, in the form of pay-per-click arrangements that can be terminated with little or no notice. If one or more of such arrangements is terminated, our business, market share and results of operations could be adversely affected. We rely on various third-party distribution channels (i.e., marketing affiliates) to distribute accommodation, rental car and airline ticket reservations. Should one or more of such third parties cease distribution of reservations made through us, or suffer deterioration in its search or meta-search ranking, due to changes in search or meta-search algorithms or otherwise, our business, market share and results of operations could be negatively affected.

We may not be able to keep up with rapid technological changes.

The markets in which we compete are characterized by rapidly changing technology, evolving industry standards, consolidation, frequent new service announcements, introductions and enhancements and changing consumer demands. We may not be able to keep up with these rapid changes. In addition, these market characteristics are heightened by the progress of technology adoption in various markets, including the continuing adoption of the internet and online commerce in certain geographies and the emergence and growth of the use of smartphones and tablets for mobile e-commerce transactions, including through the increasing use of mobile apps. New developments in other areas, such as cloud computing, could make entering our markets easier for competitors due to lower upfront technology costs. As a result, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services and online platforms to evolving industry standards and to continually innovate and improve the performance, features and reliability of our services and online platforms in response to competitive service offerings and the evolving demands of the marketplace. In particular, it is increasingly important for us to effectively offer our services on mobile devices through mobile apps and mobile-optimized websites. Any failure by us to successfully develop and achieve customer adoption of our mobile apps and mobile-optimized websites would have a material and adverse effect on our growth, market share, business and results of operations. Further, to the extent mobile devices enable users to block advertising content on their devices, our advertising revenue and our ability to market our brands and acquire new customers may be negatively affected. We believe that ease-of-use, comprehensive functionality and the look and feel of our mobile apps and mobile-optimized websites are increasingly competitively critical as consumers obtain more of their travel and restaurant services through mobile devices. As a result, we intend to continue to spend significant resources maintaining, developing and enhancing our websites and mobile platforms, including our mobile-optimized websites and mobile apps, and other technologies and platforms. Further, technical innovation often results in bugs and other system failures. Any such bug or failure, especially in connection with a significant technical implementation or change, could result in lost business, harm to our brand or reputation, customer complaints and other adverse consequences, any of which could adversely affect our business and results of operations.

Furthermore, as the overall size of our business has grown, the competitive pressure to innovate will encompass a wider range of services and technologies, including services and technologies that may be outside of our historical core business, and our ability to keep pace may slow. Our current and potential competitors range from large and established companies to emerging start-ups. Emerging start-ups may be able to innovate and focus on developing a particularly new product or service faster than we can or may foresee consumer need for new services or technologies before us. Some of our larger competitors or potential competitors have more resources or more established or varied relationships with consumers than we do, and they could use these advantages in ways that could affect our competitive position, including by making acquisitions, entering or investing in travel reservation businesses, investing in research and development, and competing aggressively for highly-skilled employees.

In addition, the widespread adoption of new internet, networking or telecommunications technologies or other technological changes (including new devices and services, such as Amazon's Echo and Alexa and Google Home, and developing technologies, such as artificial intelligence, chatbot and virtual reality technologies) could require us to incur substantial expenditures to modify or adapt our services or infrastructure to those new technologies, which could adversely affect our results of operations or financial condition. Any failure to implement or adapt to new technologies in a timely manner or at all could adversely affect our ability to compete, increase our customer acquisition costs or otherwise adversely affect our business, and therefore adversely affect our brand, market share and results of operations.

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

The security of data when engaging in electronic commerce is essential to maintaining consumer and travel service provider confidence in our services. Any security breach whether instigated internally or externally on our systems or other internet-based systems could significantly harm our reputation and therefore our business, brand, market share and results of operations. We currently require consumers who use certain of our services to guarantee their offers with their credit card. We require user names and passwords in order to access our information technology systems. We also use encryption and authentication technologies to secure the transmission and storage of data and prevent unauthorized access to our data or accounts. It is possible that computer circumvention capabilities, new discoveries or advances or other developments, including our own acts or omissions, could result in a compromise or breach of consumer data. For example, third parties may attempt to fraudulently induce employees, travel service provider partners or customers to disclose user names, passwords or other sensitive information ("phishing"), which may in turn be used to access our information technology systems or to defraud our partners or customers. Third parties may also attempt to takeover customer accounts by using passwords, usernames and and other personal information obtained elsewhere to attempt to login to customer accounts on our websites. We have experienced targeted and organized phishing and account takeover attacks and may experience more in the future. These risks are likely to increase as we expand our offerings, integrate our products and services, and store and process more data, including personal information. Our efforts to protect information from unauthorized access may be unsuccessful or may result in the rejection of legitimate attempts to book reservations through our services, any of which could result in lost business and materially adversely affect our business, reputation and results of operations.

Our existing security measures may not be successful in preventing security breaches. A party (whether internal, external, an affiliate or unrelated third party) that is able to circumvent our security systems could steal consumer information or transaction data or other proprietary information. In the last few years, several major companies experienced high-profile security breaches that exposed their systems and information and/or their customers' or employees' personal information, and it is expected that these types of events will continue to occur. We expend significant resources to protect against security breaches, and regularly increase our security-related expenditures to maintain or increase our systems' security or to address problems caused and liabilities incurred by breaches. These issues are likely to become more difficult to manage as we expand the number of places where we operate and the number and variety of services we offer, and as the tools and techniques used in such attacks become more advanced. Security breaches could result in severe damage to our information technology infrastructure, including damage that could impair our ability to offer our services or the ability of consumers to make reservations or conduct searches through our services, as well as loss of customer, financial or other data that could materially and adversely affect our ability to conduct our business, satisfy our commercial obligations or meet our public reporting requirements in a timely fashion or at all. Security breaches could also result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability, subject us to regulatory penalties and sanctions, or cause consumers to lose confidence in our security and choose to use the services of our competitors, any of which would have a negative effect on our brands, market share, results of operations and financial condition. Our insurance policies carry low coverage limits, and would likely not be adequate to reimburse us for all losses caused by security breaches.

We also face risks associated with security breaches affecting third parties conducting business over the internet. Consumers generally are concerned with security and privacy on the internet, and any publicized security problems could negatively affect consumers' willingness to provide private information or effect commercial transactions on the internet generally, including through our services. Some of our business is conducted with third-party marketing affiliates, which may generate travel reservations through our infrastructure or through other systems. Additionally, consumers using our services could be affected by security breaches at third parties such as travel service providers, payroll providers, health plan providers, payment processors or GDSs upon which we rely. A security breach at any such third-party marketing affiliate, travel service provider, payment processor, GDS or other third party on which we rely, such as the security breach experienced by Sabre in May 2017, could be perceived by consumers as a security breach of our systems and in any event could result in negative publicity, subject us to notification requirements, 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.

In our processing of travel transactions, we receive and store a large volume of personally identifiable data. This data is increasingly subject to legislation and regulations in numerous jurisdictions around the world, such as the European Union's Data Protection Directive and variations and implementations of that directive in the member states of the European Union. In addition, the European Union's General Data Protection Regulation (the "GDPR") went into effect in May 2018. The GDPR is designed to unify data protection within the European Union under a single law, which has resulted and will result in significantly greater compliance burdens and costs for companies with users and operations in the European Union. Under the GDPR, fines of up to 20 million Euros or up to 4% of the annual global revenues of the infringer, whichever is greater, could be imposed. In the United Kingdom, a Data Protection Bill went into effect in May 2018, which substantially implements the GDPR in the United Kingdom. The California Consumer Privacy Act was also recently passed and creates new data privacy rights for users effective in 2020. In February 2016, E.U. and U.S. authorities announced that they had reached agreement on a data transfer framework, called the E.U.-U.S. Privacy Shield, which was formally adopted by the European Commission on July 12, 2016. The European Union and the United States are implementing the framework, but it is currently subject to legal challenge. These laws and their interpretations continue to develop and may be inconsistent from jurisdiction to jurisdiction. This government action is typically intended to protect the privacy of personal data that is collected, processed and transmitted in or from the governing jurisdiction. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. While we have invested and continue to invest significant resources to comply with the GDPR and other privacy regulations, many of these regulations (including the GDPR) are new, extremely complex and subject to interpretation. Although we believe we are prepared for the effectiveness of the GDPR, non-compliance with these laws (including the GDPR) could result in negative publicity, damage to our reputation, penalties or significant legal liability. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

We are also subject to payment card association rules and obligations under our contracts with payment card processors. Under these rules and obligations, if information is compromised, we could be liable to payment card issuers for associated expenses and penalties. In addition, if we fail to follow payment card industry security standards, even if no customer information is compromised, we could incur significant fines or experience a significant increase in payment card transaction costs.

System capacity constraints, system failures or "denial-of-service" or other attacks could harm our business.

We have experienced rapid growth in consumer traffic to our websites and through our mobile apps, the number of accommodations on our extranets and the geographic breadth of our operations. If our systems cannot be expanded to cope with increased demand or fail to perform, we could experience unanticipated disruptions in service, slower response times, decreased customer service and customer satisfaction and delays in the introduction of new services, any of which could impair our reputation, damage our brands and materially and adversely affect our results of operations. Further, as an online business, we are dependent on the internet and maintaining connectivity between ourselves and consumers, sources of internet traffic, such as Google, and our travel service providers and restaurants. As consumers increasingly turn to mobile devices, we also become dependent on consumers' access to the internet through mobile carriers and their systems. Disruptions in internet access, such as the denial of service attack against Dyn in October 2016 that resulted in a service outage for a number of major internet companies, whether generally, in a specific market or otherwise, especially if widespread or prolonged, could materially adversely affect our business and results of operations. While we do maintain redundant systems and hosting services, it is possible that we could experience an interruption in our business, and we do not carry business interruption insurance sufficient to compensate us for all losses that may occur.

Our computer hardware for operating our services is currently located at hosting facilities around the world. These systems and operations are vulnerable to damage or interruption from human error, floods, fires, power loss, telecommunication failures and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism, terrorism and similar misconduct. Despite any precautions we may take, the occurrence of any disruption of service due to any such misconduct, natural disaster or other unanticipated problems at such facilities, or the failure by such facilities to provide our required data communications capacity could result in lengthy interruptions or delays in our services. Any system failure that causes an interruption or delay in service could impair our reputation, damage our brands, result in lost business or result in consumers choosing to use a competitive service, any of which could have a material adverse effect on our business and results of operations.

Our existing security measures may not be successful in preventing attacks on our systems, and any such attack could cause significant interruptions in our operations. For instance, from time to time, we have experienced "denial-of-service" type attacks on our systems that have made portions of our websites slow or unavailable for periods of time. There are numerous other potential forms of attack, such as "phishing" (where a third party attempts to infiltrate our systems or acquire information by posing as a legitimate inquiry or electronic communication), account takeover attacks, SQL injection (where a third party attempts to insert malicious code into our software through data entry fields in our websites in order to gain control of the system) and attempting to use our websites as a platform to launch a "denial-of-service" attack on another party, each of which could cause significant interruptions in our operations and potentially adversely affect the value of our brands, operations and results of operations or involve us in legal or regulatory proceedings. We expend significant resources in an attempt to prepare for and mitigate the effects of any such attacks. Reductions in website availability and response time could cause loss of substantial business volumes during the occurrence of any such attack on our systems, and measures we may take to divert suspect traffic in the event of such an attack could result in the diversion of bona fide customers. These issues are likely to become more difficult to manage as we expand the number of places where we operate and the variety of services we offer, and as the tools and techniques used in such attacks become more advanced. Successful attacks could result in negative publicity, damage our reputation and prevent consumers from booking travel services, researching travel services or making restaurant reservations through us during the attack, any of which could cause consumers to use the services of our competitors, which would have a negative effect on the value of our brands, our market share, business and results of operations.

We rely on certain third-party computer systems and third-party service providers, including GDSs and computerized central reservation systems of the accommodation, rental car and airline industries in connection with providing some of our services. Any interruption in these third-party services and systems or deterioration in their performance could prevent us from booking related accommodation, rental car and airline reservations and have a material adverse effect on our business, brands and results of operations. Our agreements with some third-party service providers are terminable upon short notice and often do not provide recourse for service interruptions. In the event our arrangement with any such third party is terminated, we may not be able to find an alternative source of systems support on a timely basis or on commercially reasonable terms and, as a result, it could have a material adverse effect on our business and results of operations.

We depend upon various third parties to process payments, including credit cards, for our merchant transactions around the world. In addition, we rely on third parties to provide credit card numbers which we use as a payment mechanism for merchant transactions. If any such third party were wholly or partially compromised, our cash flows could be disrupted or we may not be able to generate merchant transactions (and related revenues) until such a time as a replacement process could be put in place with a different vendor.

We do not have a completely formalized or comprehensive disaster recovery plan in every geographic region in which we conduct business. In the event of certain system failures, we may not be able to switch to back-up systems immediately and the time to full recovery could be prolonged. Like many online businesses, we have experienced system failures from time to time. In addition to placing increased burdens on our engineering staff, these outages create a significant amount of consumer questions and complaints that need to be addressed by our customer support personnel. Any unscheduled interruption in our service could result in an immediate loss of revenues that could be substantial, increase customer service costs, harm our reputation and result in some consumers switching to our competitors. If we experience frequent or persistent system failures, our reputation and brand could be permanently and significantly harmed. We have taken and continue to take steps to increase the reliability and redundancy of our systems. These steps are expensive, may reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

We use both internally developed systems and third-party systems to operate our services, including transaction processing, order management and financial systems. If the number of consumers using our services increases substantially, or if critical third-party systems stop operating as designed, we will need to significantly expand and upgrade our technology, transaction processing systems, financial and accounting systems and other infrastructure. We may not be able to upgrade our systems and infrastructure to accommodate such conditions in a timely manner, and, depending on the third-party systems affected, our transactional, financial and accounting systems could be impacted for a meaningful amount of time before upgrade, expansion or repair.

Consumer adoption and use of mobile devices creates challenges and may enable device companies such as Apple to compete directly with us.

Widespread adoption of mobile devices, such as the iPhone, Android-enabled smartphones, and tablets such as the iPad, coupled with the web browsing functionality and development of thousands of useful apps available on these devices, is driving substantial online traffic and commerce to mobile platforms. We have experienced a significant shift of business, both direct and indirect, to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. Some competitors offer last-minute discounts for mobile accommodation reservations. Advertising and distribution opportunities may be more limited on mobile devices given their smaller screen sizes. The revenues earned on a mobile transaction may be less than a typical desktop transaction due to different consumer purchasing patterns. For example, accommodation reservations made on a mobile device typically are for shorter lengths of stay, have lower ADRs and are not made as far in advance. Further, given the device sizes and technical limitations of tablets and smartphones, mobile consumers may not be willing to download multiple apps from multiple companies providing a similar service and instead prefer to use one or a limited number of apps for their mobile travel and restaurant research and reservation activity. As a result, the consumer experience with mobile apps as well as brand recognition and loyalty are likely to become increasingly important. Our mobile offerings have received generally strong reviews and are driving a material and increasing share of our business. We believe that mobile bookings present an opportunity for growth and are necessary to maintain and grow our business as consumers increasingly turn to mobile devices instead of a personal computer. As a result, it is increasingly important for us to develop and maintain effective mobile apps and websites optimized for mobile devices to provide consumers with an appealing, easy-to-use mobile experience. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile offerings and efficiently and effectively advertise and distribute on these platforms, or if our mobile offerings are not used by consumers, we could lose market share to existing competitors or new entrants and our business, future growth and results of operations could be adversely affected.

Google's Android operating system is the leading smartphone operating system in the world. As a result, Google could leverage its Android operating system to give its travel services a competitive advantage, either technically or with prominence on its Google Play app store or within its mobile search results. Further, Google is the leading internet search service and has leveraged its search popularity to promote its travel meta-search services. In July 2018, the European Commission fined Google approximately 4.3 billion Euros for breaching European Union antitrust rules by imposing restrictions on Android device manufacturers and mobile network operators, including by mandating the pre-installation of Google apps and limiting access to its Google Play app store. In addition, the European Commission's decision requires Google to end those practices within 90 days or face penalty payments of up to 5% of the average daily worldwide turnover of Alphabet, Google's parent company. Google has appealed the European Commission's decision, and it is not yet clear how or whether the decision will affect Google's business, including its travel services (Google Flights and Google Hotel Ads).

Similarly, Apple, the producer of, among other things, the iPhone and iPad, obtained a patent for "iTravel," a mobile app that would allow a traveler to check in for a travel reservation. In addition, Apple's iPhone operating system includes "Wallet," a virtual wallet app that holds tickets, boarding passes, coupons and gift cards, and, along with iTravel, may be indicative of Apple's intent to enter the travel reservations business in some capacity. Apple has substantial market share in the smartphone category and controls integration of offerings, including travel services, into its mobile operating system. Apple also has more experience producing and developing mobile apps and has access to greater resources than we have. Apple may use or expand iTravel, Wallet, Siri (Apple's voice recognition "concierge" service), Apple Pay (Apple's mobile payment system) or another mobile app or functionality as a means of entering the travel reservations marketplace. To the extent Google or Apple use their mobile operating systems, app distribution channels or, in the case of Google, search services, to favor their own travel service offerings, our business and results of operations could be harmed.

We may have exposure to additional tax liabilities.

As an international business providing reservation and marketing services around the world, we are subject to income taxes and non-income-based taxes in the United States and various international jurisdictions. Due to economic and political conditions, tax rates and tax regimes in various jurisdictions may be subject to significant change. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets or changes in tax laws or their interpretation. If our effective tax rates were to increase, our results of operations and cash flows would be adversely affected.

Although we believe that our tax filing positions are reasonable and comply with applicable law, the final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions and accruals. To date, we have been audited in many taxing jurisdictions with no significant impact on our results of operations, financial condition or cash flows. If future audits find that additional taxes are due, we may be subject to incremental tax liabilities, possibly including interest and penalties, which could have a material adverse effect on our results of operations, financial condition and cash flows.

For example, French tax authorities conducted an audit that started in 2013 of the tax years 2003 through 2012. The French tax authorities are asserting that Booking.com has a permanent establishment in France and are seeking to recover what they claim are unpaid income taxes and value-added taxes. In December 2015, the French tax authorities issued assessments related to these tax years for approximately 356 million Euros, the majority of which represents penalties and interest. We believe that Booking.com has been, and continues to be, in compliance with French tax law, and we are contesting the assessments. Our objection to the assessments was denied by the French tax authorities. If we are unable to resolve the matter with the French tax authorities, we expect to challenge the assessments in the French courts. In order to challenge the assessments in court, we may be required to pay, upfront, the full amount or a significant part of any such assessments, though such payment would not constitute an admission by us that we owe the taxes. Alternatively, any resolution or settlement of the matter with the French tax authorities may also require payment as part of such resolution or settlement. French tax authorities have begun a similar audit of the tax years 2013 through 2015, which could result in additional assessments.

Similarly, Italian authorities are reviewing Booking.com's activities to determine whether Booking.com has a permanent establishment in Italy. They are also reviewing Booking.com's transfer pricing practices in Italy. We believe that Booking.com has been, and continues to be, in compliance with Italian tax law. We are cooperating with the investigation but intend to contest any allegation that Booking.com has a permanent establishment in Italy. It is unclear at this stage of the investigation what actions, if any, the Italian authorities will take. Such actions could include closing the investigation, assessing Booking.com additional taxes, as well as the imposition of interest, fines and penalties, or even bringing criminal charges.

In general, governments are increasingly focused on ways to increase tax revenues, which has contributed to an increase in audit activity and more aggressive positions taken by tax authorities. Any such additional taxes or other assessments may be in excess of our current tax provisions or may require us to modify our business practices in order to reduce our exposure to additional taxes going forward, any of which could have a material adverse effect on our business, results of operations and financial condition.

In December 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law in the United States. The Tax Act made significant changes to U.S. federal tax law, including a reduction in the U.S. federal statutory tax rate from 35% to 21%, effective January 1, 2018, and exempts from U.S. federal income tax international profits distributed to the United States. The Tax Act imposed a one-time mandatory deemed repatriation tax on unremitted accumulated international earnings, to be paid over eight years. As a result, the Company's international cash and investments, as well as future cash generated by our international operations, can be repatriated to the U.S. without further U.S. federal income tax. See Note 10 to our Unaudited Consolidated Financial Statements for more information regarding our estimation of future tax liabilities.

The Tax Act also includes provisions, effective after December 31, 2017, allowing the immediate write off of the cost of certain investments in depreciable assets, imposing a limit on the deduction for net interest expense, changing the deductibility of covered officer compensation, and changing the rules on the use of net operating losses. The Tax Act also introduces a tax on 50% of global intangible low-taxed income, which is income determined to be in excess of a specified routine rate of return. The Tax Act further introduces a base erosion and anti-abuse tax aimed at preventing the erosion of the U.S. tax base, and a new tax deduction with respect to certain foreign-derived intangible income.

The tax law changes made by the Tax Act are broad and complex, and there are significant uncertainties about how the Tax Act will be interpreted at both the U.S. federal and state levels, and limited guidance is available from tax authorities at this time. The interpretation and implementation of the Tax Act, and regulations, rules or guidance that may be adopted under or resulting from the Tax Act could materially change the provisional tax that we recognized in 2017 and the expected future impact of the Tax Act on our business.

Additionally, in October 2015, the Organisation for Economic Co-operation and Development ("OECD") issued "final reports" in connection with its "base erosion and profit shifting" ("BEPS") project. The OECD, with the support of the G20, initiated this project in 2013 in response to concerns that international tax standards have not kept pace with changes in global business practices and that changes are needed to international tax laws to address situations where multinational businesses may pay little or no tax in certain jurisdictions by shifting profits away from jurisdictions where the activities creating those profits take place. The final reports were endorsed by the G20 leaders in November 2015. The final reports propose 15 actions the OECD determined are needed to address base erosion and profit shifting, including: (a) enhancing transparency through the sharing of tax information between countries; (b) prescribing standardized country-by-country reporting and other documentation requirements aimed at identifying where profits, tax and economic activities occur; (c) preventing harmful tax practices including the use of preferential tax regimes; (d) modernizing the OECD's transfer pricing rules related to intangibles; (e) changing the definition of permanent establishment to prevent artificial avoidance of tax nexus; and (f) limiting tax base erosion through interest deductions and other financial payments. The measures have, among other things, resulted in the development of a multilateral instrument ("MLI") to incorporate and facilitate changes to tax treaties. In June 2017, a number of countries signed the MLI. On January 28, 2016, the European Commission unveiled a new package of proposals aimed at providing a framework for fairer taxation and to provide a coordinated European Union response to combating corporate tax avoidance. Following agreement among the European Union member states on the final content of the package, the European Council formally adopted an Anti-Tax Avoidance Directive in July 2016, which was further amended in February 2017. The Directive is aimed at preventing aggressive tax planning, increasing tax transparency and creating a fairer tax environment for all businesses in the European Union. Further, the OECD's task force on the digital economy released an interim report on the Tax Challenges Arising from Digitalization on March 16, 2018 that includes consideration of the implications of adapting the current international system to the digitalization of the economy. The OECD is working towards a consensus-based solution to the challenges of the digitalization of the economy by 2020. In addition, on March 21, 2018, the European Commission released two draft directives on the Taxation of the Digital Economy. One directive aims at a more comprehensive solution whereby EU states would be able to levy corporate income tax on companies that have digital presence in those states regardless of whether they have a physical presence in the states. The second directive provides for an interim solution whereby EU States are to apply a 3% revenue based Digital Services Tax, which if enacted, would be effective beginning in 2020. Any changes to international tax laws, including new definitions of permanent establishment or changes affecting the benefits of preferential tax regimes such as the Dutch "Innovation Box Tax" (discussed below), could impact the tax treatment of our foreign earnings and adversely impact our effective tax rate. Further, changes to tax laws and additional reporting requirements could increase the complexity, burden and cost of compliance. Due to the large and expanding scale of our international business activities, any changes in U.S. or international taxation of our activities or the combined effect of tax laws in multiple jurisdictions (including the United States) may increase our worldwide effective tax rate, increase the complexity and costs associated with tax compliance (especially if changes are implemented or interpreted inconsistently across tax jurisdictions) and adversely affect our cash flows and results of operations.

We are also subject to non-income-based taxes, such as value-added, payroll, sales, use, net worth, property and goods and services taxes, as well as the potential for travel transaction taxes in the United States as discussed below. From time to time, we are under audit or investigation by tax authorities or involved in legal proceedings related to these non-income-based taxes and may have exposure to additional non-income-based tax liabilities.

We may not be able to maintain our "Innovation Box Tax" benefit.

The Netherlands corporate income tax law provides that income generated from qualifying innovative activities is taxed at the rate of 7% (5% prior to January 1, 2018) ("Innovation Box Tax") rather than the Dutch statutory rate of 25%. A portion of Booking.com's earnings currently qualifies for Innovation Box Tax treatment. In the year ended December 31, 2017, the Innovation Box Tax benefit reduced our consolidated income tax expense by approximately $397 million.

In order to be eligible for Innovation Box Tax treatment, Booking.com must, among other things, apply for and obtain an R&D certificate from a Dutch governmental agency every six months confirming that the activities that Booking.com intends to be engaged in over the subsequent six-month period are "innovative." The R&D certificate is current but should Booking.com fail to secure such a certificate in any future period - for example, because the governmental agency does not view Booking.com's new or anticipated activities as innovative - or should this agency determine that the activities contemplated to be performed in a prior period were not performed as contemplated or did not comply with the agency's requirements, Booking.com may lose its certificate and, as a result, the Innovation Box Tax benefit may be reduced or eliminated. Booking.com intends to apply for continued Innovation Box Tax treatment for future periods. However, Booking.com's application may not be accepted, or, if accepted, the amount of qualifying earnings may be reduced. The Dutch government has proposed, commencing in 2019, incrementally reducing over time the corporate income tax statutory rate from 25% to 21% by 2021. If this proposal is enacted into law, we expect the combined effect of this change and the increase in the Innovation Box Tax to 7% to slightly increase our effective tax rate during the first two years of the income tax transition period, and slightly reduce it thereafter.

The loss of the Innovation Box Tax benefit (or any material portion thereof), whether due to a change in tax law or a determination by the Dutch government that Booking.com's activities are not "innovative" or for any other reason, would substantially increase our effective tax rate and adversely impact our results of operations and cash flows.

Adverse application of U.S. state and local tax laws could have an adverse effect on our business and results of operations.

A number of jurisdictions in the United States have initiated lawsuits against online travel companies, including us, related to, among other things, the payment of travel transaction taxes (e.g., hotel occupancy taxes, excise taxes, sales taxes, etc.). In addition, a number of U.S. states, counties and municipalities have initiated audit proceedings, issued proposed tax assessments or started inquiries relating to the payment of travel transaction taxes. Additional state and local jurisdictions may assert that we are subject to, among other things, travel transaction taxes and could seek to collect such taxes, either retroactively or prospectively, or both.

In many of the judicial and other proceedings initiated to date, the taxing jurisdictions seek not only historical taxes that are claimed to be owed on our revenues, but also, among other things, interest, penalties, punitive damages and/or attorneys' fees and costs. To date, many of the taxing jurisdictions in which we facilitate travel reservations have not asserted that taxes are due and payable on our travel services. With respect to taxing jurisdictions that have not initiated proceedings to date, it is possible that they will do so in the future or that they will seek to amend their tax statutes and seek to collect taxes from us only on a prospective basis.

In connection with some travel transaction tax audits and assessments, we may be required to pay any assessed taxes, which amounts may be substantial, prior to being allowed to contest the assessments and the applicability of the laws in judicial proceedings. Payment of these amounts, if any, is not an admission that we are subject to such taxes and, even if we make such payments, we intend to continue to assert our position that we should not be subject to such taxes.

Litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. Adverse tax decisions could have a material adverse effect on our business, margins, cash flows and results of operations. An unfavorable outcome or settlement of pending litigation may encourage the commencement of additional litigation, audit proceedings or other regulatory inquiries. In addition, an unfavorable outcome or settlement of these actions or proceedings could result in substantial liabilities for past and/or future bookings, including, among other things, interest, penalties, punitive damages and/or attorneys' fees and costs.

We are dependent on providers of accommodations, rental cars and airline tickets and on restaurants.

We rely on providers of accommodations, rental cars and airline tickets and on restaurants to make their services available to consumers through us. Our arrangements with travel service providers generally do not require them to make available any specific quantity of accommodation reservations, rental cars or airline tickets, or to make accommodation reservations, rental cars or airline tickets available in any geographic area, for any particular route or at any particular price. Similarly, our arrangements with restaurants generally do not require them to provide all of their available tables and reservations to customers through us. We are in regular dialogue with our major travel service providers about the nature and extent of their participation in our services. A significant reduction on the part of any of our major travel service providers or providers that are particularly popular with consumers in their participation in our services for a sustained period of time or their complete withdrawal could have a material adverse effect on our business, market share and results of operations. To the extent any of those major or popular travel service providers ceased to participate in our services in favor of one of our competitors' systems or decided to require consumers to purchase services directly from them, our business, market share and results of operations could be harmed. During periods of higher occupancy rates, accommodation providers may decrease their distribution of accommodation reservations through third-party intermediaries like us, in particular through our discount services such as priceline's *Express Deals*® and *Name Your Own Price*® services. Further, as consolidation among travel service providers increases, the potential adverse effect of a decision by any particular significant travel service provider (such as a large hotel chain, airline or rental car company) to withdraw from or reduce its participation in our services also increases. To the extent restaurants limit the availability of reservations through OpenTable, consumers may not continue to use our services and/or our revenues could be adversely affected, especially if reservations during highly desirable times on high volume days are not made available through us.

KAYAK, a meta-search service, depends on access to information related to travel service pricing, schedules, availability and other related information from OTCs and travel service providers to attract consumers. To obtain this information, KAYAK maintains relationships with travel service providers and OTCs. Many of KAYAK's agreements with travel service providers and OTCs are short-term agreements that may be terminated on 30 days' notice. To the extent OTCs or travel service providers no longer provide such information to KAYAK, KAYAK's ability to provide comprehensive travel service information to consumers could be diminished and its brand, business and results of operations could be harmed. To the extent consumers do not view KAYAK as a reliable source of comprehensive travel service information, fewer consumers would likely visit its websites, which would also likely have a negative impact on KAYAK's advertising revenue and results of operations. In addition, if travel service providers or OTCs choose not to advertise with KAYAK or choose to reduce or eliminate the fees paid to KAYAK for referrals from query results, KAYAK's business and results of operations could be adversely affected.

We rely on the performance of highly skilled personnel; and, if we are unable to retain or motivate key personnel or hire, retain and motivate qualified personnel, our business would be harmed.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. In particular, the contributions of key senior management in the United States, Europe and Asia are critical to the overall management of our business. We may not be able to retain the services of any members of our senior management or other key employees, the loss of whom could harm our business and competitive position.

In addition, competition for well-qualified employees in all aspects of our business, including software engineers, mobile communication talent and other technology professionals, is intense both in the United States and abroad. Our international success in particular has led to increased efforts by our competitors and others to hire our international employees. These difficulties may be amplified by evolving restrictions on immigration, travel or availability of visas or work permits for skilled technology workers. Our continued ability to compete effectively and to innovate and develop products, services, technologies and enhancements depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business, competitive position and results of operations would be adversely affected. We do not maintain any key person life insurance policies.

As the size of our business grows, we may become increasingly subject to the scrutiny of anti-trust, competition and consumer protection regulators.

The online travel industry has become the subject of investigations by various national competition authorities ("NCAs"), particularly in Europe. We are or have been involved in investigations predominantly related to whether Booking.com's contractual parity arrangements with accommodation providers, sometimes also referred to as "most favored nation" or "MFN" provisions, are anti-competitive because they require accommodation providers to provide Booking.com with room rates that are at least as low as those offered to other OTCs or through the accommodation provider's website. Some investigations relate to other issues such as reservation and cancellation clauses, commission payments and pricing behavior. For instance, on September 8, 2017 the Swiss Price Surveillance Office opened an investigation into the level of commissions of Booking.com in Switzerland.

Investigations into Booking.com's parity provisions were initiated in 2013 and 2014 by NCAs in France, Germany, Italy, Austria, Sweden, Ireland and Switzerland. A number of other NCAs have also looked at these issues. On April 21, 2015, the French, Italian and Swedish NCAs, working in close cooperation with the European Commission, announced that they had accepted "commitments" offered by Booking.com to resolve and close the investigations in France, Italy and Sweden. Under the commitments, Booking.com replaced its existing price parity agreements with accommodation providers with "narrow" price parity agreements. Under a narrow price parity agreement, subject to certain exceptions, an accommodation provider is still required to offer the same or better rates on Booking.com as it offers to a consumer directly online, but it is no longer required to offer the same or better rates on Booking.com as it offers to other OTCs. The commitments also allow an accommodation provider to, among other things, offer different terms and conditions (e.g., free WiFi) and availability to consumers that book with online travel companies that offer lower rates of commission or other benefits, offer lower rates to consumers that book through offline channels and continue to discount through, among other things, accommodation loyalty programs, as long as those rates are not published or marketed online. The commitments apply to accommodations in France, Italy and Sweden and were effective on July 1, 2015. The foregoing description is a summary only and is qualified in its entirety by reference to the commitments published by the NCAs on April 21, 2015.

On July 1, 2015, Booking.com voluntarily implemented the commitments given to the French, Italian and Swedish NCAs throughout the European Economic Area and Switzerland. Nearly all NCAs in the European Economic Area have now closed their investigations following Booking.com's implementation of the commitments in their jurisdictions. Booking.com also agreed with the NCAs in Australia, New Zealand, Georgia, Turkey and Brazil to implement the narrow price parity clause in these countries. However, the Australian NCA re-opened its investigation into Booking.com's use of price parity clauses in agreements with accommodation providers. We are in ongoing discussions with various NCAs in other countries regarding their concerns. We are currently unable to predict the long-term impact the implementation of these commitments will have on Booking.com's business, on investigations by other countries, or on industry practice more generally.

On December 23, 2015, the German NCA issued a final decision prohibiting Booking.com's narrow price parity agreements with accommodations in Germany. The German NCA did not issue a fine, but has reserved its position regarding an order for disgorgement of profits. Booking.com is appealing the German NCA's decision. An Italian hotel association has appealed the Italian NCA's decision to accept the commitments by Booking.com.

A working group of 10 European NCAs (France, Germany, Belgium, Hungary, Ireland, Italy, the Netherlands, Czech Republic, the United Kingdom and Sweden) was established by the European Commission in December 2015 to monitor the effects of the narrow price parity clause in Europe. This working group (the "ECN Working Group") issued questionnaires during 2016 to online travel agencies, including Booking.com and Expedia, meta-search sites and hotels about the narrow price parity clause. On April 6, 2017, the ECN Working Group published the results of this monitoring exercise. The report indicates that the introduction of the narrow price parity clause generally improved conditions for competition. Although neither the European Commission nor any of the participating NCAs has opened a new investigation following the publication of the report, the ECN Working Group decided to keep the sector under review and re-assess the competitive situation in due course.

We are unable to predict how these appeals and the remaining investigations in other countries will ultimately be resolved, or whether further action in Europe will be taken as a result of the ECN Working Group's ongoing review. Possible outcomes include requiring Booking.com to amend or remove its rate parity clause from its contracts with accommodation providers in those jurisdictions and/or the imposition of fines.

A number of European countries have adopted legislation making price parity agreements illegal, and it is possible other countries may adopt similar legislation in the future. For example, in August 2015, French legislation known as the "Macron Law" became effective. Among other things, the Macron Law makes price parity agreements illegal, including the narrow price parity agreements agreed to by the French NCA in April 2015. Legislation prohibiting narrow price parity agreements became effective in Austria on December 31, 2016 and in Italy on August 29, 2017. A motion calling on the Swiss government to introduce legislation prohibiting the narrow price parity clause was approved by the Swiss Parliament on September 18, 2017. In December 2017, the Belgian authorities proposed similar legislation to the European Commission. It is not yet clear how the Macron Law, the Austrian and Italian legislation or the proposed Swiss or Belgian legislation may affect our business in the long term.

Further, the European Commission published a communication in May 2017 on the Mid-Term Review on the implementation of the Digital Single Market Strategy. As part of this strategy, the Commission announced on April 26, 2018 a proposal for legislation addressing relationships between online platforms and businesses. The proposal includes, for example, a requirement for intermediaries to establish an internal system for handling complaints and provisions requiring transparency in the parameters determining search rankings. It is not yet clear how the proposed legislation may affect our business.

NCAs are continuing to review the activities of online platforms, including through the use of consumer protection powers. A number of authorities are investigating or conducting information-gathering exercises in respect of compliance by OTCs with consumer protection laws. Other NCAs are reviewing the online hotel booking sector more widely through market inquiries. For example, in October 2017 the United Kingdom's NCA (the Competition and Markets Authority, or CMA) launched a consumer protection law investigation into the clarity, accuracy and presentation of information on hotel booking sites with a specific focus on the display of search results, claims regarding discounts, methods of "pressure selling" (such as creating false impressions regarding room availability) and failure to disclose hidden charges. In connection with this investigation, on June 26, 2018, the CMA announced that it would proceed with enforcement action against a number of hotel booking sites. Similarly, the consumer protection department of the German NCA opened a sector inquiry into online price comparison sites in various sectors including travel and hotels on October 24, 2017. Further, on March 9, 2018, the Danish NCA began a review of the competitive conditions of the online hotel booking market. Outside Europe, the Singaporean NCA on April 9, 2018 launched a market review into the online travel sector, with a focus on agreements between booking platforms and flight and hotel service providers. The Australian House of Representatives Standing Committee on Industry, Innovation, Science and Resources has also commenced an inquiry into the impacts of global online companies on local businesses in

Australia. We are cooperating with regulators where applicable, but we are unable to predict what, if any, effect such actions will have on our business, industry practices or online commerce more generally.

To the extent that regulatory authorities impose fines on us or require changes to our business practices or to those currently common to the industry, our business, competitive position and results of operations could be materially and adversely affected. Negative publicity regarding competition investigations could adversely affect our brands and therefore our market share and results of operations. Further, the Macron Law, the Italian and Austrian laws and any similar legislation enacted by other countries, and the decision by the German NCA to prohibit narrow price parity agreements, could have a material adverse effect on our business and our results of operations, in particular if consumers use our services to shop for accommodation reservations but make their reservations directly with an accommodation provider.

Competition-related investigations, legislation or issues could also give rise to private litigation. For example, Booking.com is involved in private litigation in Sweden related to its narrow price parity provisions. On July 20, 2018, the Swedish Patent and Market Court determined that the narrow price parity clause had to be removed from Booking.com's agreements with hotels in Sweden. Booking.com plans to appeal the court's decision. We are unable to predict how this litigation will ultimately be resolved, or whether it will impact Booking.com's business in Sweden.

In addition, as our business grows, we may increasingly become the target of competition investigations or be limited by anti-trust or competition laws. For example, our size and market share may negatively affect our ability to obtain regulatory approval of proposed acquisitions, our ability to expand into complementary businesses or our latitude in dealing with travel service providers (such as by limiting our ability to provide discounts, rebates or incentives or to exercise contractual rights), any of which could adversely affect our business, results of operations or ability to grow and compete.

Regulatory and legal requirements and uncertainties could harm our business.

The services we offer are subject to legal regulations (including laws, ordinances, rules and other requirements and regulations) of national and local governments and regulatory authorities around the world, many of which are evolving and subject to the possibility of new or revised interpretations. Our ability to provide our services is and will continue to be affected by such regulations. For example, in 2017 our Rentalcars.com business began offering optional rental car-related insurance products to customers protecting them against accidental damage to their rental vehicles, which subjects us to certain insurance regulations and related increased compliance costs and complexities, any of which could negatively impact our business and results of operations. Similarly, laws in some countries relating to data localization, payments processing, registration as a travel agent and other local requirements could, if applicable to us, adversely affect our ability to conduct business in those countries.

The implementation of unfavorable regulations or unfavorable interpretations of existing regulations by judicial or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected markets to become impractical and otherwise have a material adverse effect on our business and results of operations. For example, in March 2017, in connection with a lawsuit begun in 2015 by the Association of Turkish Travel Agencies claiming that Booking.com is required to meet certain registration requirements in Turkey, a Turkish court ordered Booking.com to suspend offering Turkish hotels and accommodations to Turkish residents. Although Booking.com is appealing the order and believes it to be without basis, this order has had a negative impact on the Company's growth and results of operations, and is expected to continue to negatively impact the Company's results of operations.

Certain jurisdictions, particularly in Europe, are considering regulations intended to address the issue of "overtourism," including restrictions that may adversely affect our ability to offer accommodations, in particular alternative accommodations, near city centers or popular tourist destinations. To the extent any such regulations require online platforms such as ours to comply with additional restrictions related to offering reservations for accommodations, tours and activities or other travel services in such areas, we could be subject to increased legal and compliance costs, and our business, growth and results of operations could be adversely affected.

Compliance with the laws and regulations of multiple jurisdictions increases our cost of doing business. These laws and regulations, which vary and sometimes conflict, include the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and local laws which also prohibit corrupt payments to governmental officials or third parties, data privacy requirements, labor relations laws, tax laws, anti-trust or competition laws, U.S., E.U. or U.N. sanctioned country or sanctioned persons mandates, and consumer protection laws. 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. Any such violations could result in prohibitions on our ability to offer our services in one or more countries, could delay or prevent potential acquisitions, and could also materially damage our reputation, our brands, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Even if we comply with these laws and regulations, doing business in certain jurisdictions could harm our reputation and brands, which could adversely affect our results of operations or stock price. In addition, these restrictions may provide a competitive advantage to our competitors unless they are also subject to comparable restrictions. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. We are also subject to a variety of other regulatory and legal risks and challenges in managing an organization operating in various countries, including those related to:

- regulatory changes or other government actions;
- additional complexity to comply with regulations in multiple jurisdictions, as well as overlapping or inconsistent legal regimes, in particular with respect to tax, labor, consumer protection, digital content, advertising, promotions, privacy and anti-trust laws;
- difficulties in transferring funds from or converting currencies in certain countries; and
- reduced protection for intellectual property rights in some countries.

Our business has grown substantially over the last several years and continues to expand into new geographic locations. In addition, we have made efforts and expect to make further efforts to integrate access to travel services across our various brands. These changes add complexity to legal and tax compliance, and our increased size and operating history may increase the likelihood that we will be subject to regulatory scrutiny or audits by tax authorities in various jurisdictions.

Our stock price is highly volatile.

The market price of our common stock is highly volatile and is likely to continue to be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

- operating results that vary from the expectations of securities analysts and investors;
- quarterly variations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- worldwide economic conditions in general and in Europe in particular;
- fluctuations in currency exchange rates, particularly between the U.S. Dollar and the Euro;
- occurrences of a significant security breach;
- announcements of technological innovations or new services by us or our competitors;
- changes in our capital structure;
- changes in market valuations of other internet or online service companies;
- announcements by us or our competitors of price reductions, promotions, significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- loss of a major travel service provider participant, such as a hotel chain, rental car company or airline, from our services;
- changes in the status of our intellectual property rights;
- lack of success in the expansion of our business models geographically;
- business interruptions, such as may result from natural disasters or other events;

- announcements by third parties of significant claims or initiation of litigation proceedings against us or adverse developments in pending proceedings;
- additions or departures of key personnel; and
- trading volume fluctuations.

Sales of a substantial number of shares of our common stock, including through the conversion of our convertible notes, could adversely affect the market price of our common stock by introducing a large number of sellers to the market. Given the volatility that exists for our shares, such sales could cause the market price of our common stock to decline significantly. In addition, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

The trading prices of internet company stocks in general, including ours, have experienced extreme price and volume fluctuations. To the extent that the public's perception of the prospects of internet or e-commerce companies is negative, our stock price could decline, regardless of our results. Other broad market and industry factors may decrease the market price of our common stock, regardless of our operating performance. Market fluctuations, as well as general political and economic conditions, such as a recession, interest rate or currency rate fluctuations, political instability (e.g., "Brexit" and the July 2016 coup attempt in Turkey) or a natural disaster or terrorist attack affecting a significant market for our business, such as Europe or the United States, could cause our stock price to decline. Negative market conditions could adversely affect our ability to raise additional capital or the value of our stock for purposes of acquiring other companies or businesses.

We have, in the past, been a defendant in securities class action litigation. Securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. To the extent our stock price declines or is volatile, we may in the future be the target of additional litigation. This additional litigation could result in substantial costs and divert management's attention and resources, either of which could adversely affect our business, financial condition and results of operations.

We face increased risks as the level of our debt increases.

We have a substantial amount of outstanding indebtedness and we may incur substantial additional indebtedness in the future, including through public or private offerings of debt securities. Our outstanding indebtedness and any additional indebtedness we incur may have significant consequences, which could include:

- requiring the dedication of a portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of cash flow available for other purposes, including capital expenditures, share repurchases and acquisitions;
- increased vulnerability to downturns in our business, to competitive pressures and to adverse changes in general economic and industry conditions;
- decreased or lost ability to obtain additional financing on terms acceptable to us for working capital, capital expenditures, acquisitions, share repurchases or other general corporate purposes; and
- decreased flexibility when planning for or reacting to changes in our business and industry.

Our ability to make payments of principal of and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our consolidated results of operations and financial condition, many of which are beyond our control. Further, we may not have access to equity or debt markets or other sources of financing, or such financing may not be available to us on commercially reasonable terms, to repay or refinance our debt as it comes due or, in the case of our convertible notes, upon conversion.

We face risks related to our intellectual property.

We regard our intellectual property as critical to our success, and we rely on domain name, trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees, travel service providers, partners and others to protect our proprietary rights. We have filed various applications for protection of certain aspects of our intellectual property in the United States and other jurisdictions, and we currently hold a number of issued patents in several jurisdictions. Further, in the future we may acquire additional patents or patent portfolios, which could require significant cash expenditures. However, we may choose not to patent or otherwise register some of our intellectual property and instead rely on trade secret or other means of protecting our intellectual property. We have licensed in the past, and may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties, and these licensees may take actions that diminish the value of our proprietary rights or harm our reputation. We also have procured various intellectual property licenses from third parties. In addition, effective intellectual property protection may not be available in every country in which our services are made available online. We may be required to expend significant time and resources to prevent infringement or to enforce our intellectual property rights.

We believe that our intellectual property rights help to protect our business. We endeavor to defend our intellectual property rights diligently, but intellectual property litigation is extremely expensive and time-consuming, and may divert managerial attention and resources from our business objectives. We may not be able to successfully defend our intellectual property rights or they may not be sufficient to effectively protect our business, which could materially adversely affect our business, brands and results of operations.

From time to time, in the ordinary course of our business, we have been subject to, and are currently subject to, legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties will continue to assert intellectual property claims, in particular patent claims, against us, particularly as we expand the complexity and scope of our business. Successful infringement claims against us could result in a significant monetary liability or prevent us from operating our business, or portions of our business. In addition, resolution of claims may require us to obtain licenses to use intellectual property rights belonging to third parties, which may be expensive to procure, or possibly to cease using those rights altogether. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

The success of our acquisition of OpenTable is subject to numerous risks and uncertainties.

On July 24, 2014, we acquired OpenTable, a leading brand for booking online restaurant reservations. We believe that the online restaurant reservation business is complementary to our online travel businesses, and that both OpenTable and our travel businesses benefit from the addition of OpenTable to Booking Holdings. As a result of our acquisition of OpenTable, we are subject to risks associated with OpenTable's business, many of which are the same risks that our other businesses face. Other risks include: OpenTable's ability to increase the number of restaurants and diners using its products and services and retain existing restaurants and diners; OpenTable's ability to expand internationally; competition both to provide reservation management services to restaurants and to attract diners to make reservations through OpenTable's websites and apps; OpenTable's ability to effectively and efficiently market to new restaurants and diners; and any risks that cause people to refrain from dining at restaurants, such as economic downturns, severe weather, outbreaks of pandemic or contagious diseases, or threats of terrorist attacks.

OpenTable's post-acquisition strategy was premised on significant and rapid investment in international expansion and various other growth initiatives, resulting in near-term reduced earnings and profit margins but with the goal of achieving significantly increased revenues and profitability in the long term. As this strategy was achieving limited progress, in the third quarter of 2016 OpenTable modified its strategy. As a result, while OpenTable intends to continue to pursue and invest in international expansion and its other growth initiatives, it intends to do so in a more measured and deliberate manner. This change in strategy resulted in OpenTable updating its forecasted financial results to reflect (a) a material reduction in forecasted long-term financial results from these initiatives, partially offset by (b) improved earnings and profit margins in the near term as a result of the reduced investments. As previously disclosed, based on the updated forecast, we estimated a significant reduction in the fair value of the OpenTable business and, for the quarter ended September 30, 2016, recognized a non-deductible goodwill impairment charge of $941 million.

Future events and changing market conditions may lead us to again re-evaluate the assumptions reflected in the updated forecast, including key assumptions regarding OpenTable's expected growth rates and operating margins and the success and timing of its international expansion and other growth initiatives, as well as other key assumptions with respect to matters outside of our control, such as discount rates, currency exchange rates, market EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) comparables, and changes in accounting policies or practices, including proposed changes affecting the measurement of goodwill and/or impairment testing methodology. If OpenTable does not achieve the results currently expected, if its investments, in particular its investments in its international expansion efforts and other growth initiatives, are not successful, or if any of the assumptions underlying our estimate of the value of the OpenTable business, including those mentioned above, prove to be incorrect, we may further refine our forecast for the OpenTable business and recognize an additional goodwill impairment and an impairment of intangible assets, which could have a material adverse effect on our results of operations.

The value of our investments could decline, which could adversely affect our financial condition and results of operations.

We maintain an investment portfolio of various holdings, types and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded in our balance sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income (loss), net of tax. Our portfolio includes fixed-income securities and equity securities of publicly traded companies, the values of which are subject to market price volatility. If such investments suffer market price declines, we may recognize in earnings the decline in the fair value of our investments below their cost basis when the decline is judged to be other than temporary. We have invested a significant amount in Ctrip convertible notes and ADSs. See Note 5 to our Unaudited Consolidated Financial Statements for more information regarding our investments in Ctrip securities. For periods beginning after December 31, 2017, changes in fair value of our investment in Ctrip equity securities is recognized in net income (see Note 1 to our Unaudited Consolidated Financial Statements). The value of these securities is subject to the risks associated with Ctrip's business, as well as any changes by the Chinese government in foreign investment laws or elevated scrutiny or regulation of foreign investments in Chinese companies. For example, because of foreign ownership restrictions applicable to its business, Ctrip is a Cayman Islands company operating in China through what is commonly referred to as a variable interest entity, or VIE, structure where it conducts part of its business through contractual relationships with affiliated Chinese entities. Although VIE structures are commonly used by Chinese internet and e-commerce companies, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations to VIE structures, and it is possible that the PRC government may view the VIE structure as in violation of PRC law. VIE contractual relationships are not as effective in providing control over the affiliated Chinese companies as direct ownership, and Ctrip would have to rely on the PRC legal system to enforce those contracts in the event of a breach by one of these entities. Further, conflicts of interest could arise to the extent Ctrip's officers or directors are also shareholders, officers or directors of the affiliated Chinese entities. Any of these risks could materially and adversely affect Ctrip's business and therefore the value of our investment in Ctrip. Similar considerations and risks apply in respect of our investments in securities of Meituan Dianping and Didi Chuxing, each of which is a private Cayman Islands company operating in China through a VIE structure.

We also invest from time to time in private companies and these investments are generally 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 ever become profitable, may not be able to secure additional funding or their technologies, services or products may not be successfully developed or introduced to the market. Further, our ability to liquidate any such investments is typically dependent on a liquidity event, such as a public offering or acquisition, as no public market exists for such securities. Valuations of privately-held companies are inherently complex and uncertain due to the lack of a liquid market for the company's securities. If we determine that any of our investments in such companies have experienced a decline in value, we may be required to record an other-than-temporary impairment. For example, in 2016 we recognized impairments totaling approximately $63 million related to investments in two private companies and in 2017 we recognized an impairment of $8 million related to an investment in one private company.

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.

Investment in new business strategies and acquisitions could disrupt our ongoing business and present risks not originally contemplated.

Our mission is to help people experience the world. As a result, our strategy involves evaluating and potentially entering complementary businesses in furtherance of that mission. We have invested, and in the future may invest, in new business strategies and acquisitions. For example, we acquired FareHarbor in April 2018 to increase Booking.com's offerings of local activities and experiences (such as tours and museum tickets) and acquired OpenTable in 2014 to enter the restaurant reservation business. We also have acquired, and in the future may acquire, businesses similar to those we already operate in an effort to expand our geographic markets, acquire technology or products or to otherwise improve or grow our business. For example, in July 2017 we acquired the Momondo Group and in July 2018 we entered into an agreement to acquire HotelsCombined, in each case to, among other things, enhance the global reach of our meta-search business. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return on capital, new risks with which we are not familiar, legal compliance obligations that previously did not apply to us, integration risks and difficulties, and unidentified issues not discovered in our investigations and evaluations of those strategies and acquisitions. As a result, entering new businesses involves risks and costs that could, if realized, have an adverse effect on our business, reputation, results of operations, cash flows or financial condition, as well as on our ability to achieve the expected benefits of any such investments or acquisitions.

We may decide to make minority investments, including through joint ventures, in which we have limited or no management or operational control. The controlling person in such a case may have business interests, strategies or goals that are inconsistent with ours, and decisions of the company or venture in which we invested may result in harm to our reputation or adversely affect the value of our investment. A substantial portion of our goodwill and intangible assets were acquired in acquisitions. If we determine that any of the goodwill and intangible assets, or any goodwill or intangible assets acquired in future transactions, experiences a decline in value, we may be required to record an other-than-temporary impairment, which could materially adversely affect our results of operations. Further, we may issue shares of our common stock in these transactions, which could result in dilution to our stockholders.

We may not be able to successfully integrate acquired businesses or combine internal businesses.

The integration of acquired businesses requires significant time and resources, and we may not manage these processes successfully. Further, as our businesses develop and market conditions change, we may decide to integrate businesses that had been managed independently. These integrations may be of varying degree, depending on many factors such as business compatibility, strategic goals or geographic location, among others. For example, on January 1, 2018, we began operating Rentalcars.com as part of Booking.com. This combination is ongoing and it may be some time before Rentalcars.com is fully integrated into Booking.com. Integrations are complex, often involve additional or unexpected costs and create a variety of issues and risks, including:

- disruption or harm to the businesses involved;
- disruption to our other businesses, including as a result of the need for management to spend time and attention on the integration;
- difficulty combining different company cultures; systems; reporting structures, titles and job descriptions; and compensation schemes;
- problems retaining key personnel, in particular at the acquired or integrated company; and
- difficulty implementing and maintaining effective controls, procedures and policies.

Our ability to successfully integrate companies is unproven, and we may not achieve the strategic, financial or operating objectives of the acquisition or integration, any of which could adversely affect our business, results of operations or the value of our acquisitions.

Our use of "open source" software could adversely affect our ability to protect our proprietary software and subject us to possible litigation.

We use open source software in connection with our software development. From time to time, companies that use open source software have faced claims challenging the use of open source software and/or compliance with open source license terms. We could be subject to suits by parties claiming ownership of what we believe to be open source software, or claiming non-compliance with open source licensing terms. Some open source licenses require users who distribute software containing open source to make available all or part of such software, which in some circumstances could include valuable proprietary code of the user. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose our proprietary source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur, in part because open source license terms are often ambiguous. Any requirement to disclose our proprietary source code or pay damages for breach of contract could be harmful to our business, results of operations or financial condition, and could help our competitors develop services that are similar to or better than ours.

Our business is exposed to risks associated with processing credit card and other payment transactions.

Because we facilitate the processing of customer credit cards in many of our transactions, including a majority of our priceline, agoda.com and Rentalcars.com transactions, our results have been negatively impacted by customer purchases made using fraudulent credit cards. We may be held liable for accepting fraudulent credit cards on our websites as well as other payment disputes with our customers. Additionally, we may be held liable for accepting fraudulent credit cards in certain transactions when we do not facilitate the processing of customer credit cards. Accordingly, we calculate and record an allowance for the resulting customer chargebacks. If we are unable to combat the use of fraudulent credit cards on our websites, our business, results of operations and financial condition could be materially adversely affected.

Our Booking.com business is also increasingly processing transactions on a merchant basis where it receives payments from travelers, including credit card transactions as well as other global payment methods. While this allows Booking.com to process transactions for properties that do not otherwise accept credit cards and to increase its ability to offer flexible transaction terms to consumers, we incur additional payment processing costs, chargebacks and other costs related to these transactions. As this business continues to grow, we may experience a significant increase in such costs, and our results of operations and financial condition could be materially adversely affected.

In addition, in the event that one of our major travel service providers voluntarily or involuntarily declares bankruptcy, we could experience an increase in chargebacks from customers with travel reservations with such travel service provider. For example, airlines that participate in our services and declare bankruptcy or cease operations may be unable or unwilling to honor tickets sold for their flights. Our policy in such event is to direct customers seeking a refund or exchange to the airline, and not to provide a remedy ourselves. Because we process sales of priceline's *Express Deals®* airline tickets on a merchant basis, we could experience a significant increase in demands for refunds or credit card chargebacks from customers, which could materially adversely affect our results of operations and financial condition. We have in the past experienced an increase in chargebacks from customers with tickets on airlines that ceased operations.

"Cookie" laws could negatively impact the way we do business.

A "cookie" is a text file that is stored on a user's web browser by a website. Cookies are common tools used by thousands of websites, including ours, to, among other things, store or gather information (e.g., remember log-on details so a user does not have to re-enter them when revisiting a website), market to consumers and enhance the user experience on a website. Cookies are valuable tools for websites like ours to improve the customer experience and increase conversion on their websites. Many countries have adopted regulations governing the use of "cookies" by websites servicing consumers, especially in the European Union. To the extent any such regulations require "opt-in" consent before certain cookies can be placed on a user's web browser, our ability, in particular Booking.com's ability, to serve certain customers in the manner we currently do might be adversely affected and our ability to continue to improve and optimize performance on our websites might be impaired, either of which could negatively affect a consumer's experience using our services and our business, market share and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information relating to repurchases of our equity securities during the three months ended June 30, 2018.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs	
April 1, 2018 –	121,184	(1) (2)	$ 2,091.31	121,184	$ 9,529,839,916	(1) (2)
April 30, 2018	437	(3)	$ 2,089.76	N/A	N/A	
May 1, 2018 –	201,937	(1) (2)	$ 2,090.65	201,937	$ 9,107,659,985	(1) (2)
May 31, 2018	10,561	(3)	$ 2,072.12	N/A	N/A	
June 1, 2018 –	236,789	(1) (2)	$ 2,102.94	236,789	$ 8,609,708,091	(1) (2)
June 30, 2018	1,666	(3)	$ 2,147.56	N/A	N/A	
Total	572,574		$ 2,095.69	559,910	$ 8,609,708,091	

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(1) Pursuant to a stock repurchase program announced on February 27, 2017, whereby the Company was authorized to repurchase up to $2,000,000,000 of its common stock.

(2) Pursuant to a stock repurchase program announced on February 27, 2018, whereby the Company was authorized to repurchase up to $8,000,000,000 of its common stock.

(3) Pursuant to a general authorization, not publicly announced, whereby the Company is authorized to repurchase shares of its common stock to satisfy employee withholding tax obligations related to stock-based compensation.

In connection with an acquisition in the three months ended June 30, 2018, we issued an aggregate of 52,297 shares of our common stock to certain individuals in a private placement pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended.

Item 6. Exhibits

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
3.1(a)	Restated Certificate of Incorporation.
3.2(a)	Amended and Restated By-Laws.
10.1(b)	1999 Omnibus Plan, amended and restated effective June 7, 2018.
12.1	Statement of Ratio of Earnings to Fixed Charges.
31.1	Certification of Glenn D. Fogel, the Chief Executive Officer and President, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of David Goulden, the Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Glenn D. Fogel, the Chief Executive Officer and President, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of David Goulden, the Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2018 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheet, (ii) Unaudited Consolidated Statement of Operations, (iii) Unaudited Consolidated Statement of Comprehensive Income, (iv) Unaudited Consolidated Statement of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

(a) Previously filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2018 and incorporated herein by reference.
(b) Previously filed as an exhibit to our Current Report on Form 8-K filed on June 8, 2018 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BOOKING HOLDINGS INC.
(Registrant)

Date: August 9, 2018

By: /s/ David Goulden

Name: David Goulden
Title: Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as principal financial officer)

Exhibit Index

Exhibit Number	Description
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(a) Previously filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2018 and incorporated herein by reference.
(b) Previously filed as an exhibit to our Current Report on Form 8-K filed on June 8, 2018 and incorporated herein by reference.

Exhibit 12.1

Booking Holdings Inc.
Ratio of Earnings to Fixed Charges
(In thousands, except ratio data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Earnings Computation:				
Earnings before income taxes	$ 1,208,911	$ 863,117	$ 1,962,248	$ 1,390,727
Fixed charges	77,512	70,527	160,843	135,240
Total earnings as adjusted	$ 1,286,423	$ 933,644	$ 2,123,091	$ 1,525,967
Fixed Charges Computation:				
Interest expense	$ 64,837	$ 60,942	$ 135,072	$ 116,659
Assumed interest element included in rent expense	12,675	9,585	25,771	18,581
Total fixed charges	$ 77,512	$ 70,527	$ 160,843	$ 135,240
Ratio of earnings to fixed charges	16.6	13.2	13.2	11.3

Exhibit 31.1

CERTIFICATION

I, Glenn D. Fogel, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Booking Holdings Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and we have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 9, 2018		/s/ Glenn D. Fogel
	Name:	Glenn D. Fogel
	Title:	President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, David Goulden, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Booking Holdings Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c. evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: August 9, 2018

/s/ David Goulden

Name: David Goulden
Title: Executive Vice President and Chief Financial Officer

Exhibit 32.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Booking Holdings Inc., a Delaware corporation (the “Company”), hereby certifies that, to his knowledge:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Report”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2018		/s/ Glenn D. Fogel
	Name:	Glenn D. Fogel
	Title:	President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Booking Holdings Inc., a Delaware corporation (the “Company”), hereby certifies that, to his knowledge:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Report”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2018		/s/ David Goulden
	Name:	David Goulden
	Title:	Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.