# 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, 2016**

**OR**

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

**For the transition period from to**

**Commission File Number 1-36691**

# The Priceline Group 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 ☐ |

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 July 28, 2016:

| | |
|---|---|
| **Common Stock, par value $0.008 per share** | **49,426,956** |
| (Class) | (Number of Shares) |

The Priceline Group Inc.
Form 10-Q

For the Three Months Ended June 30, 2016

## PART I — FINANCIAL INFORMATION
## Item 1. Financial Statements

### The Priceline Group Inc.
### UNAUDITED CONSOLIDATED BALANCE SHEETS
### (In thousands, except share and per share data)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,693,718 | $ 1,477,265 |
| Restricted cash | 823 | 806 |
| Short-term investments | 1,677,242 | 1,171,246 |
| Accounts receivable, net of allowance for doubtful accounts of $17,197 and $15,014, respectively | 982,993 | 645,169 |
| Prepaid expenses and other current assets | 559,691 | 258,751 |
| Total current assets | 5,914,467 | 3,553,237 |
| Property and equipment, net | 320,450 | 274,786 |
| Intangible assets, net | 2,082,120 | 2,167,533 |
| Goodwill | 3,360,585 | 3,375,000 |
| Long-term investments | 7,954,414 | 7,931,363 |
| Other assets | 55,134 | 118,656 |
| Total assets | $ 19,687,170 | $ 17,420,575 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 431,870 | $ 322,842 |
| Accrued expenses and other current liabilities | 1,019,513 | 681,587 |
| Deferred merchant bookings | 758,268 | 434,881 |
| Total current liabilities | 2,209,651 | 1,439,310 |
| Deferred income taxes | 803,935 | 892,576 |
| Other long-term liabilities | 143,674 | 134,777 |
| Long-term debt | 7,255,205 | 6,158,443 |
| Total liabilities | 10,412,465 | 8,625,106 |
| Stockholders' equity: | | |
| Common stock, $0.008 par value; authorized 1,000,000,000 shares, 62,343,686 and 62,039,516 shares issued, respectively | 484 | 482 |
| Treasury stock, 12,865,743 and 12,427,945 shares, respectively | (6,385,308) | (5,826,640) |
| Additional paid-in capital | 5,377,160 | 5,184,910 |
| Retained earnings | 10,146,927 | 9,191,865 |
| Accumulated other comprehensive income | 135,442 | 244,852 |
| Total stockholders’ equity | 9,274,705 | 8,795,469 |
| Total liabilities and stockholders’ equity | $ 19,687,170 | $ 17,420,575 |

See Notes to Unaudited Consolidated Financial Statements.

**The Priceline Group Inc.**
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Agency revenues | $ 1,852,961 | $ 1,582,153 | $ 3,352,990 | $ 2,781,501 |
| Merchant revenues | 517,867 | 546,013 | 987,899 | 1,040,688 |
| Advertising and other revenues | 185,074 | 152,231 | 363,132 | 298,902 |
| Total revenues | 2,555,902 | 2,280,397 | 4,704,021 | 4,121,091 |
| Cost of revenues | 126,084 | 187,491 | 254,753 | 355,949 |
| Gross profit | 2,429,818 | 2,092,906 | 4,449,268 | 3,765,142 |
| Operating expenses: | | | | |
| Performance advertising | 920,763 | 758,690 | 1,700,672 | 1,392,234 |
| Brand advertising | 112,321 | 78,431 | 182,166 | 151,685 |
| Sales and marketing | 105,522 | 94,523 | 197,845 | 176,467 |
| Personnel, including stock-based compensation of $54,976, $60,164, $120,976 and $114,172, respectively | 332,654 | 289,156 | 641,005 | 548,140 |
| General and administrative | 112,642 | 98,945 | 225,687 | 199,123 |
| Information technology | 35,797 | 27,156 | 68,585 | 52,517 |
| Depreciation and amortization | 77,712 | 67,674 | 150,583 | 132,676 |
| Total operating expenses | 1,697,411 | 1,414,575 | 3,166,543 | 2,652,842 |
| Operating income | 732,407 | 678,331 | 1,282,725 | 1,112,300 |
| Other income (expense): | | | | |
| Interest income | 21,292 | 13,037 | 41,639 | 24,633 |
| Interest expense | (50,290) | (41,547) | (97,184) | (75,026) |
| Foreign currency transactions and other | 1,997 | (1,444) | (10,931) | (6,287) |
| Impairment of cost-method investments | (12,858) | — | (63,208) | — |
| Total other expense | (39,859) | (29,954) | (129,684) | (56,680) |
| Earnings before income taxes | 692,548 | 648,377 | 1,153,041 | 1,055,620 |
| Income tax expense | 111,910 | 131,345 | 197,979 | 205,261 |
| Net income | $ 580,638 | $ 517,032 | $ 955,062 | $ 850,359 |
| Net income applicable to common stockholders per basic common share | $ 11.71 | $ 10.02 | $ 19.25 | $ 16.43 |
| Weighted-average number of basic common shares outstanding | 49,604 | 51,589 | 49,617 | 51,748 |
| Net income applicable to common stockholders per diluted common share | $ 11.60 | $ 9.94 | $ 19.06 | $ 16.27 |
| Weighted-average number of diluted common shares outstanding | 50,059 | 52,038 | 50,105 | 52,253 |

See Notes to Unaudited Consolidated Financial Statements.

## The Priceline Group Inc.
## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## (In thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $ 580,638 | $ 517,032 | $ 955,062 | $ 850,359 |
| Other comprehensive income, net of tax | | | | |
| Foreign currency translation adjustments [1] | (50,285) | 56,983 | 27,087 | (70,028) |
| Unrealized (loss) gain on marketable securities [2] | (112,038) | 124,439 | (136,497) | 286,807 |
| Comprehensive income | $ 418,315 | $ 698,454 | $ 845,652 | $ 1,067,138 |

[1] Foreign currency translation adjustments include a tax charge of $26,940 and a tax benefit of $34,156 for the three and six months ended June 30, 2016, respectively, and a tax benefit of $34,586 and a tax charge of $42,019 for the three and six months ended June 30, 2015, respectively, associated with net investment hedges (See Note 10). The remaining balance in foreign currency translation adjustments excludes income taxes due to the Company's practice and intention to indefinitely reinvest the earnings of its international subsidiaries outside of the United States (See Note 9).

[2] Net of tax charges of $5,796 and $34,924 for the three and six months ended June 30, 2016, respectively, and net of tax benefits of $11,596 and $1,620 for the three and six months ended June 30, 2015, respectively.

See Notes to Unaudited Consolidated Financial Statements.

**The Priceline Group Inc.**
**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
**FOR THE SIX MONTHS ENDED JUNE 30, 2016**
**(In thousands)**

| | Common Stock | | Treasury Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
| Balance, December 31, 2015 | 62,040 | $ 482 | (12,428) | $(5,826,640) | $5,184,910 | $ 9,191,865 | $ 244,852 | $8,795,469 |
| Net income | — | — | — | — | — | 955,062 | — | 955,062 |
| Foreign currency translation adjustments, net of tax benefit of $34,156 | — | — | — | — | — | — | 27,087 | 27,087 |
| Unrealized loss on marketable securities, net of tax charge of $34,924 | — | — | — | — | — | — | (136,497) | (136,497) |
| Exercise of stock options and vesting of restricted stock units and performance share units | 304 | 2 | — | — | 9,764 | — | — | 9,766 |
| Repurchase of common stock | — | — | (438) | (558,668) | — | — | — | (558,668) |
| Stock-based compensation and other stock-based payments | — | — | — | — | 121,016 | — | — | 121,016 |
| Excess tax benefits on stock-based awards and other equity deductions | — | — | — | — | 61,470 | — | — | 61,470 |
| Balance, June 30, 2016 | 62,344 | $ 484 | (12,866) | $(6,385,308) | $5,377,160 | $10,146,927 | $ 135,442 | $9,274,705 |

See Notes to Unaudited Consolidated Financial Statements.

**The Priceline Group Inc.**
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income | $ 955,062 | $ 850,359 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 65,157 | 46,695 |
| Amortization | 85,426 | 85,981 |
| Provision for uncollectible accounts, net | 16,117 | 13,233 |
| Deferred income tax benefit | (79,863) | (41,577) |
| Stock-based compensation expense and other stock-based payments | 121,016 | 115,269 |
| Amortization of debt issuance costs | 3,744 | 4,218 |
| Amortization of debt discount | 34,180 | 33,211 |
| Impairment of cost-method investments | 63,208 | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | (344,147) | (287,940) |
| Prepaid expenses and other current assets | (286,976) | (300,482) |
| Accounts payable, accrued expenses and other current liabilities | 687,973 | 405,818 |
| Other | (10,563) | (13,426) |
| Net cash provided by operating activities | 1,310,334 | 911,359 |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchase of investments | (2,701,662) | (4,686,507) |
| Proceeds from sale of investments | 2,176,868 | 2,231,926 |
| Additions to property and equipment | (113,699) | (84,351) |
| Acquisitions and other investments, net of cash acquired | (795) | (45,937) |
| Proceeds from foreign currency contracts | — | 453,818 |
| Payments on foreign currency contracts | — | (448,640) |
| Change in restricted cash | (6) | (225) |
| Net cash used in investing activities | (639,294) | (2,579,916) |
| | | |
| FINANCING ACTIVITIES: | | |
| Proceeds from the issuance of long-term debt | 994,705 | 1,610,449 |
| Payment of debt issuance costs - revolving credit facility | — | (3,770) |
| Payments related to conversion of senior notes | — | (147,629) |
| Repurchase of common stock | (525,144) | (986,581) |
| Proceeds from exercise of stock options | 9,766 | 12,825 |
| Excess tax benefits on stock-based awards and other equity deductions | 61,470 | 68,241 |
| Net cash provided by financing activities | 540,797 | 553,535 |
| Effect of exchange rate changes on cash and cash equivalents | 4,616 | (144,680) |
| Net increase (decrease) in cash and cash equivalents | 1,216,453 | (1,259,702) |
| Cash and cash equivalents, beginning of period | 1,477,265 | 3,148,651 |
| Cash and cash equivalents, end of period | $ 2,693,718 | $ 1,888,949 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for income taxes | $ 496,403 | $ 472,350 |
| Cash paid during the period for interest | $ 43,727 | $ 13,537 |
| Non-cash investing activity for contingent consideration | $ — | $ 9,170 |

See Notes to Unaudited Consolidated Financial Statements.

**The Priceline Group Inc.**
**Notes to Unaudited Consolidated Financial Statements**

## 1. BASIS OF PRESENTATION

Management of The Priceline Group 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, 2015.

The Unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, including its primary brands of Booking.com, priceline.com, 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" 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 the full year.

*Change in Presentation*

In the first quarter of 2016, the Company changed the presentation of advertising expenses from "Advertising - Online" and "Advertising - Offline" to "Performance advertising" and "Brand advertising" in the Unaudited Consolidated Statements of Operations. As a result, brand advertising in online channels is now recorded in "Brand advertising" rather than "Advertising - Online". For the three and six months ended June 30, 2015, this change in presentation, which had no impact on total advertising expenses, operating income or net income, amounted to $12.1 million and $21.8 million, respectively. The Company believes its new presentation is helpful because it separates performance advertising that is typically managed on a return on investment basis from brand advertising that is generally spent to build brand awareness and managed to a targeted spending level. The descriptions of these new lines are as follows:

*Performance advertising* - Advertising expenses classified as performance advertising are generally managed by the Company by monitoring return on investment. These expenses primarily consist of: (1) search engine keyword purchases; (2) referrals from meta-search and travel research websites; (3) affiliate programs; and (4) other performance-based advertisements. Performance advertising expense is recognized as incurred.

*Brand advertising* - Advertising expenses classified as brand advertising are generally managed by the Company to a targeted spending level to drive brand awareness. This includes both online and offline activities such as online videos (for example, on YouTube and Facebook), television advertising, billboards and subway and bus advertisements. Brand advertising expense is generally recognized as incurred with the exception of advertising production costs, which are expensed the first time the advertisement is displayed or broadcast.

*Recent Accounting Pronouncements*

In June 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable, and available-for-sale debt securities. For financial assets measured at amortized cost, this new guidance requires an entity to (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected, (2) recognize this allowance and changes in the allowance during subsequent periods through net income and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses. For available-for-sale debt securities, this new guidance made several targeted amendments to the existing other-than-temporary impairment model, including (1) requiring disclosure of the allowance for credit losses, (2) allowing reversals of the previously recognized credit losses until the entity has the intent to sell, is more-likely-than-not required to sell the securities or the maturity of the securities, (3) limiting impairment to the difference between the amortized cost basis and fair value and (4) not allowing entities to consider the length of time that fair value has been less than amortized cost as a factor in evaluating whether a credit loss exists. This 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. The Company is currently evaluating the impact to its Consolidated Financial Statements of adopting this new guidance.

In April 2016, the FASB issued new guidance to improve the accounting for certain aspects of share-based payment transactions as part of its simplification initiative. The key provisions of this accounting update are: (1) recognizing current excess tax benefits in the income statement in the period the benefits are deducted on the income tax return as opposed to an adjustment to additional paid-in capital in the period the benefits are realized by reducing a current income tax liability; (2) allowing an entity-wide election to account for forfeitures related to service conditions as occurred instead of estimating the total number of awards that will be forfeited because the requisite service period will not be rendered; (3) allowing the net settlement of an equity award for statutory tax withholding purposes to not exceed the maximum statutory tax rate by relevant tax jurisdiction instead of withholding taxes for each employee based on a minimum statutory withholding tax rate; and (4) requiring the presentation of excess tax benefits as operating cash flow and cash payments for employee withholding taxes related to vested stock awards as financing cash flow in the consolidated statement of cash flows. For public business entities, this update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted in any interim or annual period for which financial statements have not been issued but all of the guidance must be adopted in that same period. The Company is currently evaluating the impact to its Consolidated Financial Statements of adopting this new guidance.

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 right and obligation created by entering into a lease transaction. However, the accounting update allows an entity to make an accounting policy election so that short-term leases are not recognized on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term. The new standard significantly expands qualitative and quantitative disclosures for lessees. The new standard retains the dual-model concept by requiring companies to determine if a lease is an operating or financing lease and the current "bright line" percentages could be used as guidance in applying the new standard. The lessor accounting model remains largely unchanged. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is allowed. The Company is currently evaluating the impact to its Consolidated Financial Statements of adopting this new guidance.

In January 2016, the FASB issued a new accounting update which amends the guidance on the classification and measurement of financial instruments. Although the accounting update retains many current requirements, it significantly revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The accounting update also amends certain fair value disclosures of financial instruments and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity's evaluation of their other deferred tax assets. The update requires entities to carry all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies at fair value, with fair value changes recognized through net income. This requirement does not apply to investments that qualify for equity method accounting, investments that result in consolidation of the investee or investments in which the entity has elected the practicability exception to fair value measurement. Under current U.S. GAAP, the Company's available-for-sale investments in equity securities with readily identifiable market value are remeasured to fair value each reporting period with changes in fair value recognized in accumulated other comprehensive income (loss). However, under the new accounting literature, fair value adjustments will be recognized through net income and could vary significantly quarter to quarter. For the investments currently accounted for under the cost method, an entity can elect to measure its investments, which do not have a readily determinable fair value, at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company intends to continue to use the cost method of accounting for investments without a readily determinable fair value. Additionally, this accounting update will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. In addition, this accounting update eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is currently required to be disclosed for financial instruments measured at amortized cost in the balance sheet. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption, although allowed in certain circumstances, is not applicable to the Company.

In May 2014, the FASB and the International Accounting Standards Board issued a new accounting standard on the recognition of revenue from contracts with customers that is designed to create greater comparability for financial statement users across industries and jurisdictions. The core principle of the 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." Additionally, the new guidance specified the accounting for some costs to obtain or fulfill a contract with a customer. The new standard will also require enhanced disclosures. In March 2016, the FASB issued an amendment to this standard, which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction. The conclusion determines whether an entity reports revenue on a gross or net basis. The amendment focuses on who controls the good or service in an arrangement before it is transferred to a customer and further clarifies the unit of account and indicators of when an entity is the principal. In April 2016, the FASB further amended this standard by clarifying (1) how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether it recognizes revenue over time or at a point in time and (2) when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allowing entities to disregard items that are immaterial in the context of a contract. In May 2016, the FASB issued additional amendments related to (1) the assessment of collectibility, (2) the definition of completed contracts at transition, (3) the measurement of the fair value of non-cash consideration at contract inception, (4) the presentation of taxes collected from customers and (5) the accounting for contract modifications at transition. The accounting standard was initially effective for public business entities for annual and interim periods beginning after December 15, 2016. In July 2015, the FASB agreed to defer the effective date of the new revenue standard to annual periods beginning after December 15, 2017 with early adoption permitted as of the original effective date. The Company is currently evaluating the impact to its Consolidated Financial Statements of adopting this new guidance.

## 2. STOCK-BASED EMPLOYEE COMPENSATION

Stock-based compensation expense included in personnel expenses in the Unaudited Consolidated Statements of Operations was approximately $55.0 million and $60.2 million for the three months ended June 30, 2016 and 2015, respectively, and $121.0 million and $114.2 million for the six months ended June 30, 2016 and 2015, respectively.

Stock-based compensation is recognized in the financial statements based upon fair value. Fair value is recognized as expense on a straight-line basis, net of estimated forfeitures, over the employee's requisite service period. 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 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, 2016:

| Share-Based Awards | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| **Unvested at December 31, 2015** | 637,257 | $ 1,070.10 |
| Granted | 184,591 | $ 1,299.27 |
| Vested | (279,453) | $ 830.50 |
| Performance Share Units Adjustment | 3,088 | $ 1,267.85 |
| Forfeited | (59,161) | $ 1,275.12 |
| **Unvested at June 30, 2016** | 486,322 | $ 1,278.90 |

As of June 30, 2016, there was $380.8 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, 2016, the Company made broad-based grants of 98,856 restricted stock units that generally vest after three years, 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 $128.2 million based on a weighted-average grant date fair value per share of $1,296.68.

In addition, during the six months ended June 30, 2016, the Company granted 85,735 performance share units to executives and certain other employees. The performance share units had a total grant date fair value of $111.6 million based upon a weighted-average grant date fair value per share of $1,302.25. 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 ends December 31, 2018, assuming there is no accelerated vesting for, among other things, a termination of employment under certain circumstances. As of June 30, 2016, the estimated number of probable shares to be issued is a total of 80,671 shares, net of performance share units forfeited and vested since the grant date. If the maximum performance thresholds are met at the end of the performance period, a maximum number of 181,726 total shares could be issued. If the minimum performance thresholds are not met, 47,626 shares would be issued at the end of the performance period.

2015 Performance Share Units

During the year ended December 31, 2015, the Company granted 107,623 performance share units with a grant date fair value of $133.2 million, based on a weighted-average grant date fair value per share of $1,237.53. The actual number of shares to be issued will be determined upon completion of the performance period which generally ends December 31, 2017.

At June 30, 2016, there were 79,410 unvested 2015 performance share units outstanding, net of performance share units that were forfeited or vested since the grant date. As of June 30, 2016, 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 130,723 shares. If the maximum performance thresholds are met at the end of the performance period, a maximum of 197,115 total shares could be issued pursuant to these performance share units. If the minimum performance thresholds are not met, 46,327 shares would be issued at the end of the performance period.

2014 Performance Share Units

During the year ended December 31, 2014, the Company granted 72,277 performance share units with a grant date fair value of $96.1 million, based on a weighted-average grant date fair value per share of $1,329.11. The actual number of shares to be issued will be determined upon completion of the performance period which generally ends December 31, 2016.

At June 30, 2016, there were 45,198 unvested 2014 performance share units outstanding, net of performance share units that were forfeited or vested since the grant date. As of June 30, 2016, 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 72,552 shares. If the maximum performance thresholds are met at the end of the performance period, a maximum of 91,160 total shares could be issued pursuant to these performance share units. If the minimum performance thresholds are not met, 35,467 shares would be issued at the end of the performance period.

**Stock Options**

The following table summarizes the activity for stock options during the six months ended June 30, 2016:

| 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, 2015** | 89,104 | $ 383.03 | $ 79,474 | 5.4 |
| Exercised | (25,962) | $ 374.66 | | |
| Forfeited | (1,410) | $ 253.97 | | |
| **Balance, June 30, 2016** | 61,732 | $ 389.49 | $ 53,023 | 5.1 |
| Vested and exercisable as of June 30, 2016 | 56,002 | $ 364.94 | $ 49,476 | 4.9 |
| Vested and exercisable as of June 30, 2016 and expected to vest thereafter, net of estimated forfeitures | 61,542 | $ 389.69 | $ 52,847 | 5.1 |

The aggregate intrinsic value of employee stock options assumed in acquisitions that were exercised during the six months ended June 30, 2016 was $23.1 million compared to $26.4 million for the six months ended June 30, 2015. During the six months ended June 30, 2016, stock options assumed in acquisitions vested for 9,387 shares of common stock with an acquisition-date fair value of $5.9 million, compared to 22,352 shares of common stock vested for stock options assumed in acquisitions with an acquisition-date fair value of $15.1 million for the six months ended June 30, 2015.

For the three and six months ended June 30, 2016, the Company recorded stock-based compensation expense related to employee stock options of $2.4 million and $5.3 million, respectively, compared to $7.6 million and $15.0 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016, there was $3.3 million of total future compensation costs related to unvested employee stock options to be recognized over a weighted-average period of 1.1 years.

## 3. NET INCOME PER SHARE

The Company computes basic net income per share by dividing net income 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, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted-average number of basic common shares outstanding | 49,604 | 51,589 | 49,617 | 51,748 |
| Weighted-average dilutive stock options, restricted stock units and performance share units | 167 | 229 | 230 | 273 |
| Assumed conversion of Convertible Senior Notes | 288 | 220 | 258 | 232 |
| Weighted-average number of diluted common and common equivalent shares outstanding | 50,059 | 52,038 | 50,105 | 52,253 |
| Anti-dilutive potential common shares | 2,591 | 2,775 | 2,566 | 2,769 |

Anti-dilutive potential common shares for both the three and six months ended June 30, 2016 include approximately 2.0 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.

## 4. INVESTMENTS

*Short-term and Long-term Investments in Available-for-Sale Securities*

The following table summarizes, by major security type, the Company's investments as of June 30, 2016 (in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Short-term investments: | | | | |
| Foreign government securities | $ 287,229 | $ 94 | $ (211) | $ 287,112 |
| U.S. government securities | 427,344 | 194 | (3) | 427,535 |
| Corporate debt securities | 949,907 | 1,382 | (78) | 951,211 |
| Commercial paper | 8,012 | — | (5) | 8,007 |
| U.S. government agency securities | 3,376 | 1 | — | 3,377 |
| Total short-term investments | $ 1,675,868 | $ 1,671 | $ (297) | $ 1,677,242 |
| | | | | |
| Long-term investments: | | | | |
| Foreign government securities | $ 641,671 | $ 4,766 | $ — | $ 646,437 |
| U.S. government securities | 541,307 | 5,923 | — | 547,230 |
| Corporate debt securities | 4,535,904 | 47,999 | (556) | 4,583,347 |
| U.S. municipal securities | 1,064 | 10 | — | 1,074 |
| U.S. government agency securities | 1,000 | — | — | 1,000 |
| Ctrip convertible debt securities | 1,250,000 | 92,975 | (36,500) | 1,306,475 |
| Ctrip equity securities | 630,311 | 238,540 | — | 868,851 |
| Total long-term investments | $ 7,601,257 | $ 390,213 | $ (37,056) | $ 7,954,414 |

The Company's investment policy seeks to preserve capital and maintain sufficient liquidity to meet operational and other needs of the business. As of June 30, 2016, the weighted-average life of the Company’s fixed income investment portfolio, excluding the Company's investment in Ctrip convertible debt securities, was approximately 1.8 years with an average credit quality of A+/A1/A+.

The Company invests in foreign government securities with high credit quality. As of June 30, 2016, investments in foreign government securities principally included debt securities issued by the governments of the Netherlands, Germany, France, Belgium and Austria.

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 by Ctrip.com International Ltd. ("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 to require a prepayment in cash from Ctrip at the end of the sixth year of the note. As of June 30, 2016, the Company had also invested $630.3 million of its international cash in Ctrip American Depositary Shares ("ADSs"). The convertible debt and equity securities of Ctrip have been marked-to-market in accordance with the accounting guidance for available-for-sale securities.

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 and May 2015 convertible notes, the Company could hold up to an aggregate of 15% of Ctrip's outstanding equity. As of June 30, 2016, the Company did not have significant influence over Ctrip.

The following table summarizes, by major security type, the Company's investments as of December 31, 2015 (in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Short-term investments: | | | | |
| Foreign government securities | $ 395,404 | $ 497 | $ (104) | $ 395,797 |
| U.S. government securities | 457,001 | — | (507) | 456,494 |
| Corporate debt securities | 305,654 | 25 | (419) | 305,260 |
| Commercial paper | 11,688 | — | — | 11,688 |
| U.S. government agency securities | 2,009 | — | (2) | 2,007 |
| Total short-term investments | $ 1,171,756 | $ 522 | $ (1,032) | $ 1,171,246 |
| | | | | |
| Long-term investments: | | | | |
| Foreign government securities | $ 718,947 | $ 1,367 | $ (683) | $ 719,631 |
| U.S. government securities | 580,155 | 277 | (1,982) | 578,450 |
| Corporate debt securities | 4,294,282 | 1,273 | (18,941) | 4,276,614 |
| U.S. municipal securities | 1,080 | 3 | — | 1,083 |
| Ctrip convertible debt securities | 1,250,000 | 158,600 | (30,050) | 1,378,550 |
| Ctrip equity securities | 630,311 | 346,724 | — | 977,035 |
| Total long-term investments | $ 7,474,775 | $ 508,244 | $ (51,656) | $ 7,931,363 |

The Company has classified its investments as available-for-sale securities. These securities are carried 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" in the Unaudited Consolidated Balance Sheets. Classification as short-term or long-term investment is based upon the maturity of the debt securities.

The Company recognized net realized gains of $2.1 million and net realized losses of $0.8 million related to investments for the three and six months ended June 30, 2016, respectively, compared to net realized gains of $1.6 million and $3.4 million for the three and six months ended June 30, 2015, respectively.

*Cost-method Investments*

The Company held investments in equity securities of private companies, which are typically at an early stage of development, of approximately $0.6 million and $62.3 million as of June 30, 2016 and December 31, 2015, respectively. The investments are accounted for under the cost method and reported in "Other assets" in the Company's Unaudited Consolidated Balance Sheets. The Company evaluates its investments quarterly to determine if any indicators of other-than-temporary impairment exist.

In March 2016, the Company received an operating performance update from Hotel Urbano, which showed disappointing 2015 results, significantly reduced forecasts and the need for additional funding in the near term. This update combined with increased political turmoil, the declaration of a public health emergency related to the Zika virus and sustained poor macroeconomic conditions in Brazil in the first quarter of 2016 indicated a potential other-than-temporary impairment in the fair value of the Company's investment. As a result, the Company analyzed all information available and based on the best estimate of the fair value of this investment, recognized an impairment of approximately $50 million for the three months ended March 31, 2016. In the second quarter of 2016, after discussions with Hotel Urbano's management, the Company reviewed their additional funding needs and based on its business prospects, the Company recognized an impairment of approximately $10 million for the three months ended June 30, 2016 to write-off the remainder of its investment in Hotel Urbano.

In addition, the Company recognized an impairment of approximately $3 million for an investment in another private company during the three months ended June 30, 2016.

## 5. FAIR VALUE MEASUREMENTS

Financial assets and liabilities carried at fair value as of June 30, 2016 are classified in the tables below in the categories described below (in thousands):

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash equivalents: | | | |
| Money market funds | $ 1,344,815 | $ — | $ 1,344,815 |
| U.S. government securities | — | 222,264 | 222,264 |
| Commercial paper | — | 5,560 | 5,560 |
| Short-term investments: | | | |
| Foreign government securities | — | 287,112 | 287,112 |
| U.S. government securities | — | 427,535 | 427,535 |
| Corporate debt securities | — | 951,211 | 951,211 |
| Commercial paper | — | 8,007 | 8,007 |
| U.S. government agency securities | — | 3,377 | 3,377 |
| Foreign exchange derivatives | — | 782 | 782 |
| Long-term investments: | | | |
| Foreign government securities | — | 646,437 | 646,437 |
| U.S. government securities | — | 547,230 | 547,230 |
| Corporate debt securities | — | 4,583,347 | 4,583,347 |
| U.S. municipal securities | — | 1,074 | 1,074 |
| U.S. government agency securities | — | 1,000 | 1,000 |
| Ctrip convertible debt securities | — | 1,306,475 | 1,306,475 |
| Ctrip equity securities | 868,851 | — | 868,851 |
| Total assets at fair value | $ 2,213,666 | $ 8,991,411 | $ 11,205,077 |

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **LIABILITIES:** | | | |
| Foreign exchange derivatives | $ — | $ 351 | $ 351 |

Financial assets and liabilities carried at fair value as of December 31, 2015 are classified in the tables below in the categories described below (in thousands):

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash equivalents: | | | |
| Money market funds | $ 99,117 | $ — | $ 99,117 |
| Foreign government securities | — | 10,659 | 10,659 |
| U.S. government securities | — | 90,441 | 90,441 |
| Corporate debt securities | — | 1,855 | 1,855 |
| Commercial paper | — | 335,663 | 335,663 |
| Short-term investments: | | | |
| Foreign government securities | — | 395,797 | 395,797 |
| U.S. government securities | — | 456,494 | 456,494 |
| Corporate debt securities | — | 305,260 | 305,260 |
| Commercial paper | — | 11,688 | 11,688 |
| U.S. government agency securities | — | 2,007 | 2,007 |
| Foreign exchange derivatives | — | 363 | 363 |
| Long-term investments: | | | |
| Foreign government securities | — | 719,631 | 719,631 |
| U.S. government securities | — | 578,450 | 578,450 |
| Corporate debt securities | — | 4,276,614 | 4,276,614 |
| U.S. municipal securities | — | 1,083 | 1,083 |
| Ctrip convertible debt securities | — | 1,378,550 | 1,378,550 |
| Ctrip equity securities | 977,035 | — | 977,035 |
| Total assets at fair value | $ 1,076,152 | $ 8,564,555 | $ 9,640,707 |

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **LIABILITIES:** | | | |
| Foreign exchange derivatives | $ — | $ 644 | $ 644 |

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 foreign government securities, commercial paper, government agency securities, convertible debt securities and municipal securities are considered "Level 2" valuations because the Company has access to quoted prices, but does not have visibility to 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.

As of June 30, 2016 and December 31, 2015, the Company's cash consisted of bank deposits. Other financial assets and liabilities, including restricted cash, 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. As of June 30, 2016 and December 31, 2015, the Company held investments in equity securities of private companies and these investments are accounted for under the cost method of accounting (see Note 4). See Note 4 for information on the carrying value of available-for-sale investments and Note 7 for the estimated fair value of the Company's outstanding Senior Notes. See Note 11 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 limits 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 are recorded as currency translation adjustments to offset a portion of the currency translation adjustment from Euro-denominated net assets held by certain subsidiaries and are recognized in the Unaudited Consolidated Balance Sheets in "Accumulated other comprehensive income."

<u>Derivatives Not Designated as Hedging Instruments</u> — 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 risk from short-term foreign exchange fluctuations for the Euro, British Pound Sterling and certain other currencies versus the U.S. Dollar. As of June 30, 2016 and December 31, 2015, there were no outstanding derivative contracts related to foreign currency translation risk. Foreign exchange gains of $3.9 million and $0.3 million for the three and six months ended June 30, 2016, respectively, compared to foreign exchange losses of $1.7 million and foreign exchange gains of $0.2 million for the three and six months ended June 30, 2015, respectively, are recorded related to these derivatives in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

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. Foreign exchange derivatives outstanding as of June 30, 2016 associated with foreign currency transaction risks resulted in a net asset of $0.4 million, with an asset in the amount of $0.8 million recorded in "Prepaid expenses and other current assets" and a liability in the amount of $0.4 million recorded in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet. Foreign exchange derivatives outstanding as of December 31, 2015 associated with foreign exchange transactions resulted in a net liability of $0.3 million, with a liability in the amount of $0.7 million recorded in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet and an asset in the amount of $0.4 million recorded in "Prepaid expenses and other current assets." Derivatives associated with these transaction risks resulted in foreign exchange gains of $3.6 million and $16.0 million for the three and six months ended June 30, 2016, respectively, compared to foreign exchange gains of $6.0 million and foreign exchange losses of $26.0 million for the three and six months ended June 30, 2015, 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 $2.6 million and $0.2 million for the three months ended June 30, 2016 and 2015, respectively, and net losses of $7.0 million and $6.3 million for the six months ended June 30, 2016 and 2015, respectively. The net impacts related to these derivatives are recorded 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 a net cash inflow of $23.6 million for the six months ended June 30, 2016 compared to a net cash outflow of $27.7 million for the six months ended June 30, 2015 and are reported within "Net cash provided by operating activities" in the Unaudited Consolidated Statements of Cash Flows.

<u>Derivatives Designated as Hedging Instruments</u> — The Company had no foreign currency forward contracts designated as hedges of its net investment in a foreign subsidiary outstanding as of June 30, 2016 or December 31, 2015. A net cash inflow of $5.2 million for the six months ended June 30, 2015 related to foreign currency forward contracts designated as hedges of the Company's net investment in a foreign subsidiary is reported within "Net cash used in investing activities" in the Unaudited Consolidated Statement of Cash Flows.

## 6. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

| | June 30, 2016 | | | December 31, 2015 | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 822,590 | $ (254,189) | $ 568,401 | $ 824,932 | $ (227,994) | $ 596,938 | 10 - 20 years | 16 years |
| Technology | 113,045 | (71,616) | 41,429 | 112,639 | (61,404) | 51,235 | 1 - 5 years | 5 years |
| Patents | 1,623 | (1,580) | 43 | 1,623 | (1,562) | 61 | 15 years | 15 years |
| Internet domain names | 41,680 | (23,946) | 17,734 | 40,352 | (20,954) | 19,398 | 2 - 20 years | 8 years |
| Trade names | 1,669,712 | (222,391) | 1,447,321 | 1,671,356 | (183,101) | 1,488,255 | 4 - 20 years | 20 years |
| Non-compete agreements | 21,900 | (14,708) | 7,192 | 22,847 | (11,201) | 11,646 | 3 - 4 years | 3 years |
| Other | — | — | — | 135 | (135) | — | | |
| Total intangible assets | $ 2,670,550 | $ (588,430) | $ 2,082,120 | $ 2,673,884 | $ (506,351) | $ 2,167,533 | | |

Intangible assets with determinable lives are amortized on a straight-line basis. Intangible asset amortization expense was approximately $43.0 million and $85.4 million for the three and six months ended June 30, 2016, respectively, and $42.7 million and $86.0 million for the three and six months ended June 30, 2015, respectively.

The amortization expense for intangible assets for the remainder of 2016, the annual expense for the next five years, and the expense thereafter is expected to be as follows (in thousands):

| | |
|---|---|
| 2016 | $ 83,923 |
| 2017 | 160,767 |
| 2018 | 142,185 |
| 2019 | 131,884 |
| 2020 | 124,684 |
| 2021 | 119,659 |
| Thereafter | 1,319,018 |
| | $ 2,082,120 |

The change in goodwill for the six months ended June 30, 2016 consists of the following (in thousands):

| | |
|---|---|
| Balance at December 31, 2015 | $ 3,375,000 |
| Currency translation adjustments | (14,415) |
| Balance at June 30, 2016 | $ 3,360,585 |

A substantial portion of the intangibles and goodwill relates to the acquisitions of OpenTable in July 2014 and KAYAK in May 2013.

## 7. DEBT

***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 will be used for working capital and general corporate purposes, which could include acquisitions or share repurchases. As of June 30, 2016 and December 31, 2015, there were no borrowings outstanding under the facility. As of June 30, 2016 and December 31, 2015, there were approximately $3.6 million and $2.5 million of letters of credit issued under the facility, respectively.

***Outstanding Long-term Debt***

Outstanding long-term debt as of June 30, 2016 consisted of the following (in thousands):

| June 30, 2016 | Outstanding Principal Amount | Unamortized Debt Discount and Debt Issuance Cost | Carrying Value |
|---|---|---|---|
| **Long-term debt:** | | | |
| 1.0% Convertible Senior Notes due March 2018 | $ 1,000,000 | $ (45,711) | $ 954,289 |
| 0.35% Convertible Senior Notes due June 2020 | 1,000,000 | (102,670) | 897,330 |
| 0.9% Convertible Senior Notes due September 2021 | 1,000,000 | (115,004) | 884,996 |
| 2.15% (€750 Million) Senior Notes due November 2022 | 833,611 | (5,901) | 827,710 |
| 2.375% (€1 Billion) Senior Notes due September 2024 | 1,111,482 | (14,090) | 1,097,392 |
| 3.65% Senior Notes due March 2025 | 500,000 | (3,943) | 496,057 |
| 3.6% Senior Notes due June 2026 | 1,000,000 | (8,105) | 991,895 |
| 1.8% (€1 Billion) Senior Notes due March 2027 | 1,111,482 | (5,946) | 1,105,536 |
| Total long-term debt | $ 7,556,575 | $ (301,370) | $ 7,255,205 |

Outstanding long-term debt as of December 31, 2015 consisted of the following (in thousands):

| December 31, 2015 | Outstanding Principal Amount | Unamortized Debt Discount and Debt Issuance Cost | Carrying Value |
|---|---|---|---|
| **Long-term debt:** | | | |
| 1.0% Convertible Senior Notes due March 2018 | $ 1,000,000 | $ (58,929) | $ 941,071 |
| 0.35% Convertible Senior Notes due June 2020 | 1,000,000 | (114,898) | 885,102 |
| 0.9% Convertible Senior Notes due September 2021 | 1,000,000 | (125,258) | 874,742 |
| 2.15% (€750 Million) Senior Notes due November 2022 | 815,217 | (6,555) | 808,662 |
| 2.375% (€1 Billion) Senior Notes due September 2024 | 1,086,957 | (14,688) | 1,072,269 |
| 3.65% Senior Notes due March 2025 | 500,000 | (4,160) | 495,840 |
| 1.8% (€1 Billion) Senior Notes due March 2027 | 1,086,957 | (6,200) | 1,080,757 |
| Total long-term debt | $ 6,489,131 | $ (330,688) | $ 6,158,443 |

Based upon the closing price of the Company's common stock for the prescribed measurement periods during the three months ended June 30, 2016 and December 31, 2015, the respective contingent conversion thresholds of the 2018 Notes (as defined below), the 2020 Notes (as defined below) and the 2021 Notes (as defined below) were not exceeded and therefore these notes are reported as non-current liabilities in the Unaudited Consolidated Balance Sheets.

***Fair Value of Long-term Debt***

As of June 30, 2016 and December 31, 2015, the estimated fair value of all outstanding Senior Notes was approximately $8.2 billion and $7.0 billion, respectively, and was considered a "Level 2" fair value measurement (see Note 5). 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 fair 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. In cases where holders decide to convert prior to the maturity date, the Company charges the proportionate amount of remaining debt issuance costs to interest expense.

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. As of June 15, 2021, holders will have the right to convert all or any portion of the 2021 Notes. 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. 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 Company paid $20.9 million in debt issuance costs during the year ended December 31, 2012 related to this offering. The 2018 Notes are convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately $944.61 per share. The 2018 Notes are convertible, at the option of the holder, prior to March 15, 2018, 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 2018 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 2018 Notes in aggregate value ranging from $0 to approximately $344 million depending upon the date of the transaction and the then current stock price of the Company. As of December 15, 2017, holders will have the right to convert all or any portion of the 2018 Notes. The 2018 Notes may not be redeemed by the Company prior to maturity. The holders may require the Company to repurchase the 2018 Notes for cash in certain circumstances. Interest on the 2018 Notes is payable on March 15 and September 15 of each year.

In March 2010, the Company issued in a private placement $575.0 million aggregate principal amount of Convertible Senior Notes due March 15, 2015, with an interest rate of 1.25% (the "2015 Notes"). The Company paid $13.3 million in debt issuance costs associated with the 2015 Notes for the year ended December 31, 2010. The 2015 Notes were convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately $303.06 per share. In March 2015, in connection with the maturity or conversion prior to maturity of the remaining outstanding 1.25% Convertible Senior Notes, the Company paid $37.5 million to satisfy the aggregate principal amount due and paid an additional $110.1 million in satisfaction of the conversion value in excess of the principal amount, which was charged to additional paid-in capital.

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 were 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 were 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 were recorded in additional paid-in capital related to the 2018 Notes at March 31, 2012.

For the three months ended June 30, 2016 and 2015, the Company recognized interest expense of $23.5 million and $23.0 million, respectively, related to convertible notes. Interest expense related to convertible notes for the three months ended June 30, 2016 and 2015 was comprised of $5.6 million for the contractual coupon interest for each period, $16.8 million and $16.3 million, respectively, related to the amortization of debt discount, and $1.1 million related to the amortization of debt issuance costs for each period. For the three months ended June 30, 2016 and 2015, included in the amortization of debt discount mentioned above was $0.7 million of original issuance discount for each period related to the 2020 Notes. The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity dates for the respective debt. The weighted-average effective interest rate related to convertible notes was 3.4% for both the three months ended June 30, 2016 and 2015.

For the six months ended June 30, 2016 and 2015, the Company recognized interest expense of $46.9 million and $46.3 million, respectively, related to convertible notes. Interest expense related to convertible notes for the six months ended June 30, 2016 and 2015 was comprised of $11.2 million and $11.4 million, respectively, for the contractual coupon interest, $33.5 million and $32.7 million, respectively, related to the amortization of debt discount, and $2.2 million related to the amortization of debt issuance costs for each period. For the six months ended June 30, 2016 and 2015, included in the amortization of debt discount mentioned above was $1.4 million of original issuance discount for each period related to the 2020 Notes. The remaining period for amortization of debt discount and debt issuance costs is the period until the stated maturity dates for the respective debt. The weighted-average effective interest rate was 3.4% for both the six months ended June 30, 2016 and 2015.

***Other Long-term Debt***

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 $5.9 million in debt issuance costs during the three months ended June 30, 2016. Interest on the 2026 Notes is payable semi-annually on June 1 and December 1, beginning December 1, 2016.

In November 2015, the Company issued Senior Notes due November 25, 2022, with an interest rate of 2.15% (the "2022 Notes") for an aggregate principal amount of 750 million Euros. The 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 2022 Notes is payable annually on November 25, beginning November 25, 2016. Subject to certain limited exceptions, all payments of interest and principal, including payments made upon any redemption of the 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, beginning September 15, 2015.

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, beginning March 3, 2016. 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, beginning September 23, 2015. Subject to certain limited exceptions, all payments of interest and principal for the 2024 Notes will be made in Euros.

The aggregate principal value of the 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" 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 effects of foreign currency changes also reported in "Accumulated other comprehensive income"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 3.62% for the 2026 Notes, 2.20% for the 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, 2016 and 2015, the Company recognized interest expense of $25.5 million and $16.7 million, respectively, related to other long-term debt which was comprised of $24.6 million and $16.1 million, respectively, for the contractual coupon interest, $0.3 million and $0.2 million, respectively, related to the amortization of debt discount and $0.6 million and $0.4 million, respectively, related to the amortization of 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, 2016 and 2015, the Company recognized interest expense of $46.9 million and $26.2 million, respectively, related to other long-term debt which was comprised of $45.1 million and $25.1 million, respectively, for the contractual coupon interest, $0.7 million and $0.5 million, respectively, related to the amortization of debt discount and $1.1 million and $0.6 million, respectively, related to the amortization of 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. As of June 30, 2016, the loan is reported in "Other long-term liabilities" in the Unaudited Consolidated Balance Sheet. The loan will be forgiven if certain employment and salary conditions are met.

## 8. TREASURY STOCK

In the first quarter of 2016, the Company's Board of Directors authorized a program to repurchase up to $3.0 billion of the Company's common stock. In the six months ended June 30, 2016, the Company repurchased 318,257 shares of its common stock in the open market for an aggregate cost of $402.9 million, which included stock repurchases in June 2016 of 27,320 shares for an aggregate cost of $33.5 million that were settled in July 2016. As a result, the Unaudited Consolidated Balance Sheet at June 30, 2016 includes $33.5 million in "Accrued expenses and other current liabilities" for these unsettled stock repurchases. The Unaudited Consolidated Statement of Cash Flows for the six months ended June 30, 2016 excludes the impact of these stock repurchases settled in July 2016.

As of June 30, 2016, the Company had a remaining authorization of $2.6 billion to purchase its common stock. The Company may make additional 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 purchase of common stock and the amount of common stock purchased will be determined at the Company's discretion.

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. The Company repurchased 119,509 shares and 57,332 shares at aggregate costs of $155.8 million and $70.9 million in the six months ended June 30, 2016 and 2015, respectively, to satisfy employee withholding taxes related to stock-based compensation.

As of June 30, 2016, there were 12,865,743 shares of the Company's common stock held in treasury.

## 9. 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. 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 recognizes income tax expense based upon the applicable tax rates and tax laws of the countries in which the income is generated. During the three and six months ended June 30, 2016 and 2015, a substantial majority of the Company's income was generated in the Netherlands. Income tax expense for the three and six months ended June 30, 2016 and 2015 differs from the expected tax expense at the U.S. federal statutory rate of 35%, primarily due to lower international tax rates, partially offset by U.S. state income taxes and certain non-deductible expenses. The effective tax rate was lower for the three and six months ended June 30, 2016, compared to the three and six months ended June 30, 2015, primarily due to U.S. state tax law changes which resulted in a decrease to our deferred tax liabilities associated with acquired intangible assets and an increased proportion of our income being taxed at lower international tax rates due to the growth of our international businesses, offset by an increase in the tax rate that arises because there is no tax benefit on the impairment of our Hotel Urbano investment of approximately $50 million in the first quarter of 2016 and an additional impairment of approximately $10 million in the second quarter of 2016 (see Note 4).

According to Dutch corporate income tax law, income generated from qualifying innovative activities is taxed at a rate of 5% ("Innovation Box Tax") rather than the Dutch statutory rate of 25%. A portion of Booking.com's earnings during the three and six months ended June 30, 2016 and 2015 qualifies for Innovation Box Tax treatment, which had a significant beneficial impact on the Company's effective tax rate for those periods.

The Company has significant deferred tax assets including U.S. net operating loss carryforwards ("NOLs"). At December 31, 2015, the Company had approximately $847.9 million of available NOLs for U.S. federal income tax purposes, comprised of $25.6 million of NOLs generated from operating losses and approximately $822.3 million of NOLs generated from equity-related transactions, including equity-based compensation and stock warrants. The majority of these NOLs expire from December 31, 2019 to December 31, 2021. At December 31, 2015, the Company had approximately $620.9 million of U.S. state NOLs that expire mainly between December 31, 2020 and December 31, 2034. The utilization of these NOLs is dependent upon the Company's ability to generate sufficient future taxable income in the United States. Pursuant to current accounting guidance, tax benefits related to equity deductions will be recognized by crediting additional paid-in capital when they are realized by reducing the Company's current income tax liability. Under the new accounting standard issued in April 2016 (see Note 1), all previously unrecognized excess tax benefits will be recognized as a deferred tax asset, net of any valuation allowance, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption of this standard. In addition, under the new accounting standard, prospectively all excess tax benefits will be recognized in the income statement in the year in which equity deductions are claimed on the Company's income tax return. The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of these deferred tax assets by a valuation allowance to the extent it believes a portion 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.

It is the practice and intention of the Company to indefinitely reinvest the earnings of its international subsidiaries outside of the United States. As a result, at June 30, 2016, no provision had been made for U.S. taxes on cumulative undistributed international earnings. At December 31, 2015, international earnings intended to be indefinitely reinvested amounted to approximately $9.9 billion. It is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not indefinitely reinvested.

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME

The table below provides the balances for each classification of accumulated other comprehensive income as of June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Foreign currency translation adjustments, net of tax [1] | $ (190,176) | $ (217,263) |
| Net unrealized gain on marketable securities, net of tax [2] | 325,618 | 462,115 |
| Accumulated other comprehensive income | $ 135,442 | $ 244,852 |

[1] Foreign currency translation adjustments, net of tax, include net losses from fair value adjustments of $34.8 million after tax ($52.6 million before tax) associated with derivatives designated as net investment hedges at both June 30, 2016 and December 31, 2015 (see Note 5).

Foreign currency translation adjustments, net of tax, include foreign currency transaction gains of $93.8 million after tax ($153.3 million before tax) and $126.8 million after tax ($220.5 million before tax) associated with the Company's 2022 Notes, 2024 Notes and 2027 Notes at June 30, 2016 and December 31, 2015, respectively. The 2022 Notes, 2024 Notes and 2027 Notes are Euro-denominated debt and are designated as hedges of certain of the Company's Euro-denominated net assets (see Note 7).

The remaining balance in foreign currency translation adjustments excludes 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] The unrealized gains before tax at June 30, 2016 were $354.6 million, of which unrealized gains of $238.7 million were exempt from tax in the Netherlands and unrealized gains of $115.8 million were taxable. The unrealized gains before tax at December 31, 2015 were $456.1 million, of which unrealized gains of $481.3 million were exempt from tax in the Netherlands and unrealized losses of $25.2 million were taxable.

## 11. 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 predominately 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 online travel companies ("OTCs") or through the accommodation provider's website.

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 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. In October 2015, the Irish NCA closed its investigation on the basis of commitments by Booking.com identical to those given to the French, Italian and Swedish NCAs. In November 2015, the Swiss NCA closed its investigation, prohibiting any reintroduction of Booking.com's old "wide" parity agreements but permitting Booking.com to retain its existing "narrow" parity agreements with accommodations in Switzerland. The Austrian NCA stated in March 2016 that it will close its investigation against Booking.com in light of the move to "narrow" price parity. 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 recently resolved the concerns of the Australia NCA based on implementation of the "narrow" price parity clause in Australia. 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. Booking.com filed an application to the Dusseldorf Court requesting the Court to order the suspension of the effects of the prohibition decision for the duration of the appeal. This application was rejected by the Dusseldorf Court on May 9, 2016; however, this outcome does not affect Booking.com's main appeal against 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) has been established by the European Commission to monitor the effects of the narrow price parity clause in Europe. The working group will issue questionnaires to market players, including Booking.com and Expedia, about the narrow price parity clause, and is expected to report its results by the end of the year.

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 working group's findings. 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.

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 was approved by the Italian Senate in June 2016 and is expected to be passed by the Italian Parliament during summer 2016 and become effective in September 2016. Similar legislation has been proposed in Austria. It is not yet clear how the Macron Law, the Italian law or the proposed Austrian legislation may affect our business in the long term in France, Italy and Austria, respectively.

*Litigation Related to Travel Transaction Taxes*

The Company and certain third-party OTCs are currently involved in approximately thirty lawsuits, including certified and putative class actions, brought by or against U.S. states, cities and counties over issues involving the payment of travel transaction taxes (e.g., hotel occupancy taxes, excise taxes, sales taxes, etc.) related to the priceline.com business. Generally, the complaints allege, among other things, that the OTCs violated each jurisdiction's respective relevant travel transaction tax ordinance with respect to the charge and remittance of amounts to cover taxes under each law. The Company believes that the laws at issue generally do not apply to the services it provides, namely the facilitation of travel reservations, and, therefore, that it does not owe the taxes that are claimed to be owed. However, the Company has been involved in this type of litigation for many years, and state and local jurisdictions where these issues have not been resolved could assert that the Company is subject to travel transaction taxes and could seek to collect such taxes, retroactively and/or prospectively. From time to time, the Company has found it expedient to settle claims pending in these matters without conceding that the claims at issue are meritorious or that the claimed taxes are in fact due to be paid. The Company may also settle current or future travel transaction tax claims.

Litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. An unfavorable outcome or settlement of pending litigation may encourage the commencement of additional litigation, audit proceedings or other regulatory inquiries and also 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. An adverse outcome in one or more of these unresolved proceedings could have an adverse effect on the Company's results of operations or cash flows in any given operating period. However, the Company believes that even if the Company were to suffer adverse determinations in the near term in more of the pending proceedings than currently anticipated, given results to date it would not have a material impact on its liquidity or financial condition.

*Accrual for Travel Transaction Taxes*

As a result of this litigation and other attempts by jurisdictions to levy similar taxes, the Company has established an accrual (including estimated interest and penalties) for the potential resolution of issues related to travel transaction taxes in the amount of approximately $27 million as of June 30, 2016 and December 31, 2015. The Company's legal expenses for these matters are expensed as incurred and are not reflected in the amount accrued. The actual cost may be less or greater, potentially significantly, than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount accrued cannot be reasonably made.

*Patent Infringement*

On February 9, 2015, International Business Machines Corporation ("IBM") filed a complaint in the U.S. District Court for the District of Delaware against The Priceline Group Inc. and its subsidiaries KAYAK Software Corporation, OpenTable, Inc. and priceline.com LLC (the "Subject Companies"). In the complaint, IBM alleges that the Subject Companies have infringed and continue to willfully infringe certain IBM patents that IBM claims relate to the presentation of applications and advertising in an interactive service, preserving state information in online transactions and single sign-on processes in a computing environment and seeks unspecified damages (including a request that the amount of compensatory damages be trebled), injunctive relief and costs and reasonable attorneys' fees. The Subject Companies believe the claims to be without merit and are contesting them. The Subject Companies moved the District Court to dismiss the case due to lack of patentable subject matter in the asserted patents, and on March 30, 2016 that motion was denied without prejudice to refiling later in the case. Concurrently with the litigation, the Subject Companies filed four Inter Partes Review ("IRP") petitions and four Covered Business Method petitions for the patents-in-suit with the U.S. Patent and Trademark Office (the "PTAB"). The PTAB denied one of the IPR petitions, and the Subject Companies are awaiting decisions from the PTAB on the other filings.

*French and Italian Tax Matters*

French tax authorities recently concluded an audit of Booking.com that started in 2013 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 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 intends to contest the assessments. If the Company is unable to resolve the matter with the French authorities, it would expect to challenge the assessments in the French courts. The Company may be required to pay, upfront, the full amount or a significant part of any such assessments, though any such payment would not constitute an admission by it that it owes the tax. French authorities may decide to also audit subsequent tax years, which could result in additional assessments.

Italian tax authorities have initiated a process to determine whether Booking.com should be subject to additional tax obligations in Italy. Italian tax authorities may determine that the Company owes additional taxes, and may also assess penalties and interest. The Company believes that it has been, and continues to be, in compliance with Italian tax law.

*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 consolidated balance sheets and provisions recorded have not been material to the Company's consolidated results of operations or cash flows. An estimate for a reasonably possible loss or range of loss in excess of the amount accrued 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*

As of June 30, 2016 and December 31, 2015, the Company's Unaudited Consolidated Balance Sheets include a long-term liability of approximately $9 million for estimated contingent consideration for a business acquisition. The contingent liability is based upon a probability-weighted average of payments for specific performance outcomes from the acquisition date through the performance period, which ends at March 31, 2019. The range of undiscounted outcomes for the contingent consideration is $0 to $90 million.

**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, and the Section entitled "Special Note Regarding Forward-Looking Statements" at the end of Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report. 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 our results of operations 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**

We help people experience the world by providing consumers, travel service providers and restaurants with leading travel and restaurant reservation and related services. Through our online travel companies ("OTCs"), we connect consumers wishing to make travel reservations with providers of travel services around the world. We are the leader in the worldwide online accommodation reservation market based on room nights booked. We offer consumers a broad array of accommodation reservations (including hotels, bed and breakfasts, hostels, apartments, vacation rentals and other properties) through our Booking.com, priceline.com and agoda.com brands. Our priceline.com brand also offers consumers reservations for rental cars, airline tickets, vacation packages and cruises. We offer rental car reservations worldwide through Rentalcars.com. We also allow consumers to easily compare airline ticket, hotel reservation and rental car reservation information from hundreds of travel websites at once through KAYAK. We provide restaurants with reservation management services and consumers with the ability to make restaurant reservations at participating restaurants through OpenTable, a leading provider of online restaurant reservations. We refer to our company and all of our subsidiaries and brands, including Booking.com, priceline.com, KAYAK, agoda.com, Rentalcars.com, OpenTable and various smaller brands, collectively as "The Priceline Group," the "Company," "we," "our" or "us."

We launched our business in the United States in 1998 under the priceline.com brand and have since expanded our operations to include five other primary, independently operated brands: Booking.com, KAYAK, agoda.com, Rentalcars.com and OpenTable. Our principal goal is to help people experience the world by serving both consumers and our travel service provider and restaurant partners with worldwide leadership in online reservation and related services. Our business is driven primarily by international results, which consist of the results of Booking.com, agoda.com and Rentalcars.com and the results of the internationally-based websites of KAYAK and OpenTable (in each case regardless 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). During the year ended December 31, 2015, our international business (the substantial majority of which is generated by Booking.com) represented approximately 86% of our consolidated gross profit. A significant majority of our gross profit is earned in connection with facilitating accommodation reservations.

We derive substantially all of our gross profit from the following sources:

- Commissions earned from facilitating reservations of accommodations, rental cars, cruises and other travel services;
- Transaction gross profit and customer processing fees from our accommodation, rental car, airline ticket and vacation package reservation services;
- Advertising revenues primarily earned by KAYAK from sending referrals to 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 other OpenTable revenues; and
- Damage excess waiver fees, travel insurance fees and global distribution system ("GDS") reservation booking fees, in each case related to certain of our travel services.

Our priceline.com brand offers merchant *Name Your Own Price®* opaque travel services, which are recorded in revenue on a "gross" basis and have associated cost of revenue. All of our other services are recorded in revenue on a "net" basis and have no associated cost of revenue. Therefore, revenue increases and decreases are impacted by changes in the mix of our revenues between *Name Your Own Price®* travel services and other services. Gross profit reflects the commission or net margin earned for all of our services. Consequently, gross profit is an important measure to evaluate growth in our business because, in contrast to our revenues, it is not affected by the different methods of recording revenue and cost of revenue between our *Name Your Own Price®* travel reservation services and our other services.

**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, the high growth of travel overall in emerging markets such as Asia-Pacific and South America, and the continued innovation and execution by our teams around the world to build accommodation supply, content and distribution and to improve the consumer experience on our websites and mobile apps. These year-over-year growth rates have generally decelerated in recent years. For example, for the year ended December 31, 2015, our accommodation room night reservation growth was 25%, a deceleration from 28% in 2014, 37% in 2013, and 40% in 2012. Given the size of our accommodation reservation business, we expect that our year-over-year growth rates will continue to decelerate, though the rate of deceleration may fluctuate.

The size of the travel market outside of the United States is substantially greater than that within the United States. Historically, Internet use and e-commerce activity of international consumers have trailed that of consumers in the United States. However, international consumers are increasingly moving to online means for purchasing travel. Accordingly, recent international online travel growth rates have substantially exceeded, and are expected to continue to exceed, the growth rates within the United States. We expect that over the long term, 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 directly bookable properties through Booking.com. Booking.com included about 965,000 properties on its website as of June 30, 2016, which included over 467,000 vacation rental properties (updated property counts are available on the Booking.com website), and compares to about 742,000 properties (including over 337,000 vacation rental properties) as of June 30, 2015. 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 facilitates 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 flexible transaction terms to customers, such as the form and timing of payment. Although we will incur additional credit card processing costs related to these transactions, which are recorded as sales and marketing expenses in our statement of operations and which will negatively impact our operating margins, 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.

As our international business represents the substantial majority of our financial results, we expect our operating results and other financial metrics to continue to be largely driven by international performance. For example, 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, including hotels, bed and breakfasts, hostels and vacation rentals. Vacation rentals generally consist of, among others, properties categorized as single-unit and multi-unit villas, apartments, "aparthotels" (which are apartments with a front desk and cleaning service) and chalets and are generally self-catered (i.e., include a kitchen), directly bookable properties. Many of the newer accommodations we add to our travel reservation services, especially in highly penetrated markets, may have fewer rooms, lower average daily rates ("ADRs") or higher credit risk and may appeal to a smaller subset of consumers (e.g., hostels and bed and breakfasts), and therefore may also negatively impact our margins. For example, because a vacation rental is typically either a single unit or a small collection of independent units, vacation rental properties represent more limited booking opportunities than non-vacation rental properties, which generally have more units to rent per property. Our vacation rental properties in general may be subject to increased seasonality due to local tourism seasons, weather or other factors. As we increase our vacation rental property business, these different market 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 vacation rental properties increases, we expect that the number of reservations per property will likely continue to decrease.

Concerns persist about the outlook for the global economy in general, including uncertainty in the European Union. In addition, many governments around the world, including the U.S. government and certain European governments, are operating at large financial deficits, resulting in high levels of sovereign debt in such countries. Greece, Ireland, Portugal and certain other European Union countries with high levels of sovereign debt at times have had difficulty refinancing their debt. Failure to reach political consensus regarding workable solutions to these issues has resulted in a high level of uncertainty regarding the future economic outlook. This uncertainty, as well as concern over governmental austerity measures including higher taxes and reduced government spending, could impair consumer spending and adversely affect travel demand. At times, we have experienced volatility in transaction growth rates and cancellation rates and weaker trends in hotel ADRs across many regions of the world, particularly in those European countries that appear to be most affected by economic uncertainties. We believe that these business trends are likely impacted by weak economic conditions and sovereign debt concerns. Similarly, while China's economy experienced rapid growth over the past 20 years, growth of the Chinese economy slowed in 2015 and concerns about its future growth have had an adverse impact on financial markets, currency exchange rates and other economies. Disruptions in the economies of such countries 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. For example, we have experienced an increase in cancellation rates, which we believe is due in part to these macro-economic factors and a resulting lack of consumer confidence. Increased cancellation rates negatively affect our advertising efficiency and our results of operations.

Greece, in particular, has recently faced and continues to face significant economic challenges, in large part due to its high levels of sovereign debt and difficulties refinancing that debt. This may increase the likelihood that Greece, and in turn other countries, could exit the European Union, which could lead to added economic and political uncertainty and further devaluation or eventual abandonment of the Euro common currency.

On June 23, 2016, the United Kingdom held a referendum in which British citizens approved an exit from the European Union, commonly referred to as "Brexit." Following the referendum, global markets and foreign exchange rates experienced increased volatility, including a sharp decline in the value of the British Pound Sterling as compared to the U.S. Dollar. To leave the European Union, the United Kingdom must provide official notice of its decision to leave and negotiate the terms of its exit, which could take two years or more. 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 unknown, we are unable to predict the effect Brexit will have on our business 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 further 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.

These and other macro-economic uncertainties, such as sovereign default risk becoming more widespread, declining oil prices and geopolitical tensions, have led to significant volatility in the exchange rate between the Euro, the U.S. Dollar, the British Pound Sterling and other currencies. In March 2015, the European Central Bank, in an effort to stimulate the European economy, launched a quantitative easing program to purchase public debt and, in March 2016, announced an expansion of the program and other stimulus measures.

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 adverse 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. Throughout 2015, the U.S. Dollar strengthened significantly year-over-year relative to substantially all currencies in which we transact, most notably the Euro, Brazilian Real, British Pound Sterling, Russian Ruble and Australian Dollar. In the first half of 2016, the U.S. Dollar continued to be stronger year-over-year relative to the British Pound Sterling, Russian Ruble, Brazilian Real and many other major currencies in which we transact. Following the "Brexit" referendum in the United Kingdom in June 2016, the U.S. Dollar strengthened significantly against the British Pound Sterling, and whether or when the British Pound Sterling will recover is unknown. As a result of these currency exchange rate changes, our foreign currency denominated net assets, gross bookings, gross profit, operating expenses and net income have been negatively impacted as expressed in U.S. Dollars, although to a much lesser extent in the first half of 2016 than in the first half of 2015.

For example, gross profit from our international operations grew 17.5% and 20.1% for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, but, without the negative impact of changes in currency exchange rates, grew year-over-year on a constant-currency basis by approximately 19% and 24%. Since our expenses are generally denominated in foreign currencies on a basis similar to our revenues, our operating margins are not significantly impacted by currency fluctuations. The aggregate principal value of our Euro-denominated 2022 Notes, 2024 Notes and 2027 Notes, and accrued interest thereon, provide a natural hedge of the net assets of certain of our Euro functional currency subsidiaries.

We generally enter into derivative instruments to minimize the impact of short-term currency fluctuations on our consolidated operating results. 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, revenues or gross profit (see Note 5 to the Unaudited Consolidated Financial Statements for additional information on our derivative contracts).

Significant fluctuations in currency exchange rates, stock markets and oil prices can also impact consumer travel behavior. 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. 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. Similarly, 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. In addition, although lower oil prices may lead to increased travel activity as consumers have more discretionary funds and airline fares decrease, recent declines in oil prices and stock market volatility may be indicative of broader macro-economic weakness, which in turn could negatively affect the travel industry and our business.

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.

We compete with both online and traditional travel and restaurant reservation and related services. The market for the services we offer is intensely competitive, a trend we expect to continue, and current and new competitors can launch new services at a relatively low cost. We currently, or may potentially in the future, compete with a variety of companies, including:

- online travel reservation services such as those owned by Expedia (including Travelocity and Orbitz), Ctrip (in which we hold a minority interest), Rakuten, eDreams ODIGEO and Jalan (which is owned by Recruit);

- online accommodation search and/or reservation services, such as Airbnb and HomeAway (which is owned by Expedia), currently focused on vacation rental properties and other non-hotel accommodations, including individually owned properties;

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

- traditional travel agencies, wholesalers and tour operators, such as Carlson Wagonlit, American Express, Thomas Cook and TUI Travel, as well as thousands of individual travel agencies around the world;

- travel service providers such as accommodation providers, rental car companies and airlines;

- online travel search and price comparison services (generally referred to as "meta-search" services), such as TripAdvisor, trivago (in which Expedia holds a majority ownership interest), Qunar (which is controlled by Ctrip) and HotelsCombined;

- online restaurant reservation services, such as TripAdvisor's LaFourchette, Yelp's SeatMe and Zomato; and

- 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 and Zipcar.

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.*"

During 2015, Expedia acquired Travelocity, Orbitz and HomeAway. To the extent these acquisitions enhance Expedia's ability to compete with us, in particular in the United States, which is Expedia's, Travelocity's, Orbitz's and HomeAway's largest market, our market share and results of operations could be adversely affected.

Widespread adoption of mobile devices, such as the iPhone, Android-enabled smart phones 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 to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. Our major competitors and certain new market entrants are offering mobile apps for travel products and other mobile functionality, including proprietary last-minute discounts for accommodation reservations. Advertising and distribution opportunities may be more limited on mobile devices given their smaller screen sizes. The gross profit 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 and are not made as far in advance. Further, given the device sizes and technical limitations of tablets and smart phones, 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. 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.

In addition, 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. For example, Marriott International, Hilton and Hyatt Hotels each recently announced additional initiatives to encourage consumers to book accommodations directly through their websites, with increased discounting and incentives. If we are not as effective as our competitors 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. If we need to fund discounts out of our gross profit, our profitability could be adversely affected. Further, growth in discounted closed user group retail prices for hotel rooms lessens the price difference for members of closed user groups between a retail hotel reservation and an opaque hotel reservation, which we believe has led to fewer consumers using our opaque hotel reservation services. In addition, hotels typically make available only a limited number of hotel rooms for opaque services like those of our priceline.com business, especially during periods of high occupancy. Recent high hotel occupancy levels in the United States, which have had an adverse impact on our access to hotel rooms for our opaque hotel reservation services, and, we believe, the increased use by consumers of discounted closed user group retail prices for hotel rooms have negatively affected our opaque hotel reservation gross profit.

We have established widely used and recognized e-commerce brands through aggressive marketing and promotional campaigns. Our performance and brand advertising expenses have both increased significantly in recent years, a trend we expect to continue. For the six months ended June 30, 2016, our total performance advertising expense was approximately $1.7 billion, 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. We also invested approximately $182 million in brand advertising during that period, primarily related to costs associated with producing and airing television advertising, online video advertising (for example, on YouTube and Facebook) and online display advertising. We have observed increased brand advertising by OTCs, meta-search services and travel service providers, particularly in North America, South America and Europe, which may make our brand advertising efforts more expensive and less effective.

Performance advertising efficiency, expressed as performance advertising expense as a percentage of gross profit, 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 advertising efficiency. We have observed a long-term trend of decreasing performance advertising returns on investment ("ROIs"), a trend we expect to continue. If Google changes how it presents travel search results or the manner in which it conducts the auction for placement among search results in a manner that is competitively disadvantageous to us, whether to support its own travel-related services or otherwise, our ability to efficiently generate traffic to our websites could be harmed. See Part II Item 1A Risk Factors - "*We rely on performance advertising channels to generate a significant amount of traffic to our websites and enhance our brand awareness.*" and "*Our business could be negatively affected by changes in Internet search engine algorithms and dynamics or traffic-generating arrangements.*"

The national competition authorities ("NCAs") of many governments have begun investigations into competitive practices within the online travel industry, and we may be involved or affected by such investigations and their results. For example, various European NCAs opened investigations primarily related to Booking.com's contractual price parity arrangements with accommodation providers in those jurisdictions. It is uncertain how these issues will finally be resolved. For example, the French, Italian and Swedish NCAs accepted commitments offered by Booking.com to resolve and close their investigations and Booking.com voluntarily implemented these commitments throughout the European Economic Area and Switzerland on July 1, 2015, which resolved the concerns of various other countries. However, in August 2015, France adopted legislation known as the "Macron Law" making price parity agreements illegal, including those that had been approved by the French NCA and similar legislation is expected to be enacted in Italy. For more information on these investigations and their potential effects on our business, see Note 11 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 and competition regulators.*" To the extent that regulatory authorities impose fines or require changes to our business practices or to those currently common to the industry or legislation is enacted with a similar effect, our business, competitive position and results of operations could be materially and adversely affected. Negative publicity regarding any such investigations could adversely affect our brand and therefore our market share and results of operations.

**Seasonality**

A meaningful amount of our gross bookings are generated early in the year, as customers plan and reserve their spring and summer vacations in Europe and North America. From a cost perspective, we expense the substantial majority of our advertising activities as the expense is incurred, which is typically in the quarter in which reservations are booked. However, we generally do not recognize associated revenue until future quarters when the travel occurs. As a result, we have historically experienced our highest levels of profitability in the second and third quarters of the year, which is when we experience the highest levels of accommodation checkouts for the year for our European and North American businesses. We experience the highest levels of booking and travel consumption for our Asia-Pacific and South American businesses in the first and fourth quarters. As these businesses have generally been growing faster than our European and North American businesses, our operating results for the fourth quarter of the year have become more significant over time as a percentage of full year operating results.

In addition, the date on which certain holidays fall can have an impact on our quarterly results. For example, in 2016, our first quarter year-over-year growth rates in revenue, gross profit, operating income and operating margins were positively impacted by Easter falling in the first quarter instead of the second quarter, as it did in 2015. Conversely, our second quarter 2016 year-over-year growth rates in revenue, gross profit, operating income and operating margins were adversely impacted by Easter falling in the first quarter instead of the second quarter, as it did in 2015. The timing of other holidays such as Chinese New Year, Carnival and 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 growth rate substantially decelerates, our operating margins typically benefit from relatively less variable advertising expense. In addition, gross profit growth is typically less impacted in the near term due to the benefit of revenue related to reservations booked in previous 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 and further expand into other international markets. Factors beyond our control, such as worldwide recession, oil prices, 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, Influenza H1N1, avian bird flu, SARS and MERS, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities or travel-related accidents, can disrupt travel or otherwise result in declines in travel demand. Because these events or concerns 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. For example, our business and operations were negatively impacted by the terror attacks in Paris in November 2015, Brussels in March 2016, Orlando in June 2016 and Nice in July 2016; the coup attempt in Turkey in

July 2016; Hurricane Sandy, which disrupted travel in the northeastern United States in late 2012; a major earthquake, tsunami and nuclear emergency in Japan in 2011; severe flooding in Thailand in October 2011; and disruptive civil unrest in Thailand in 2014. In addition, MERS had an adverse impact on our business in northeast Asia in 2015. Also, in 2015 regional hostilities in the Middle East spurred an unprecedented flow of migrants from that region to Europe. As countries respond to the European migrant crisis, travel between countries in 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.

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. For example, we are investing in growth initiatives at OpenTable, including international expansion, and in building our BookingSuite services. 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, mergers and acquisitions. Our goal is to grow gross profit and achieve healthy operating margins in an effort to maintain profitability. The uncertain environment described above makes the prediction of future results of operations difficult, and accordingly, we may not be able to sustain gross profit growth and profitability.

Since our acquisition of OpenTable, we have invested and intend to continue to invest in OpenTable to accelerate its global expansion, increase the value offered to its restaurant partners and enhance the end-to-end experience for consumers across desktop and mobile devices. As expected, these investments resulted in lower OpenTable post-acquisition EBITDA compared to pre-acquisition levels. However, the time required to execute these investments has exceeded our initial expectations. Despite the delays, we continue to believe that these investments will result in significant future earnings. Future events and changing market conditions may, however, lead us to reevaluate the assumptions we have used to test for goodwill impairment, including key assumptions regarding OpenTable's expected growth rates and operating margins, as well as other key assumptions with respect to matters outside of our control, such as discount rates, currency exchange rates and market EBITDA comparables. We expect OpenTable to complete the technology platform development efforts necessary to enable its global expansion by the end of 2016. As these development efforts are completed and OpenTable's global expansion activities increase, we will refine our forecast accordingly. If OpenTable’s investments, in particular its investments in its global expansion efforts, are not successful, there is a substantial likelihood that we would recognize a related goodwill impairment, which could have a material adverse effect on our results of operations.

**Results of Operations**

*Three and Six Months Ended June 30, 2016 compared to the Three and Six Months Ended June 30, 2015*

***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 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 by our customers, net of cancellations, and is widely used in the travel business.

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, 2016 and 2015 were as follows (numbers may not total due to rounding):

| | Three Months Ended June 30, (in millions) | | | Six Months Ended June 30, (in millions) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Agency* | $ 15,369 | $ 12,867 | 19.4% | $ 29,903 | $ 24,775 | 20.7% |
| *Merchant* | 2,494 | 2,094 | 19.1% | 4,612 | 3,961 | 16.5% |
| *Total* | $ 17,862 | $ 14,960 | 19.4% | $ 34,515 | $ 28,736 | 20.1% |

Gross bookings increased by 19.4% and 20.1% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015 (growth on a constant-currency basis was approximately 21% and 23%, respectively), principally due to growth of 24.4% and 27.4%, respectively, in accommodation room night reservations and growth of 7.9% and 9.3%, respectively, in rental car day reservations, partially offset by the impact of foreign exchange rate fluctuations, a decrease in accommodation ADRs (the decline on a constant-currency basis was less than 1%) and decreases in airfares and airline ticket reservations. The U.S. Dollar was stronger against the British Pound Sterling and many other currencies for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, which adversely affected the growth of our agency and merchant gross bookings, expressed in U.S. Dollars. We therefore believe that unit growth rates and total gross bookings and gross profit growth on a constant-currency basis, excluding 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 facilitate the charging of customers' credit cards. Agency gross bookings increased 19.4% and 20.7% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015, primarily due to growth in gross bookings from Booking.com agency retail accommodation room night reservations, as well as growth in gross bookings from agoda.com agency retail hotel reservations and agency retail rental car reservations for Rentalcars.com and priceline.com, partially offset by lower retail airfares and a decline in retail airline ticket reservations.

Merchant gross bookings are derived from services where we facilitate the charging of customers' credit cards for the travel services provided. Merchant gross bookings increased 19.1% and 16.5% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015, primarily due to increases in gross bookings by merchant retail hotel reservation services for Booking.com and priceline.com, priceline.com's *Express Deals*® airline ticket and hotel reservation services, and merchant retail rental car reservations for Rentalcars.com. These increases were partially offset by declines in gross bookings by priceline.com's *Name Your Own Price*® reservation services, a portion of agoda.com's accommodation room night reservations shifting to agency and the impact of the stronger U.S. Dollar on agoda.com's merchant retail hotel ADRs.

Accommodation room nights, rental car days and airline tickets reserved through our services for the three and six months ended June 30, 2016 and 2015 were as follows:

| | Three Months Ended June 30, (in millions) | | | Six Months Ended June 30, (in millions) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Room Nights* | 140.7 | 113.1 | 24.4 % | 277.2 | 217.7 | 27.4 % |
| *Rental Car Days* | 18.5 | 17.2 | 7.9 % | 34.7 | 31.7 | 9.3 % |
| *Airline Tickets* | 2.0 | 2.1 | (6.6)% | 3.8 | 4.1 | (6.9)% |

Accommodation room night reservations increased by 24.4% and 27.4% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015, primarily due to strong execution by our brand teams to add accommodations to our websites, advertise our brands to consumers and provide a continuously improving experience for customers on our desktop and mobile platforms. Booking.com included about 965,000 properties on its website as of June 30, 2016, which included over 467,000 vacation rental properties (updated property counts are available on the Booking.com website), compared to about 742,000 properties (including over 337,000 vacation rental properties) as of June 30, 2015.

Rental car day reservations increased by 7.9% and 9.3% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015, due to an increase in price-disclosed rental car day reservations for Rentalcars.com and priceline.com, partially offset by a decrease in priceline.com's *Name Your Own Price®* rental car day reservations.

Airline ticket reservations decreased by 6.6% and 6.9% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015, due to a decline in priceline.com's retail and *Name Your Own Price®* airline ticket reservations, partially offset by an increase in priceline.com's *Express Deals®* airline ticket reservations.

***Revenues***

We classify our revenue into three categories:

- Agency revenues are derived from travel-related transactions where we do not facilitate the charging of customers’ credit cards and where the prices of the travel services are determined by third parties. Agency revenues include travel commissions, GDS reservation booking fees related to certain travel services, travel insurance fees and customer processing fees and are reported at the net amounts received, without any associated cost of revenue. Substantially all of the revenue for Booking.com is agency revenue comprised of travel commissions.

- Merchant revenues are derived from services where we facilitate the charging of customers’ credit cards for the travel services provided. Merchant revenues include (1) transaction net revenues (i.e., to the extent applicable, the amount charged to a customer, less the amount charged to us by travel service providers) in connection with (a) the accommodation reservations provided through our merchant price-disclosed accommodation reservation services at agoda.com, priceline.com and Booking.com and (b) the reservations provided through our merchant rental car service at Rentalcars.com and *Express Deals®* reservation services at priceline.com; (2) transaction revenues representing the price of *Name Your Own Price®* hotel, rental car, vacation packages and airline ticket reservations charged to a customer (with a corresponding travel service provider cost recorded in cost of revenues); (3) customer processing fees charged in connection with (a) priceline.com's *Express Deals®* and *Name Your Own Price®* reservation services and (b) merchant retail hotel reservation services at priceline.com and agoda.com; and (4) ancillary fees, including damage excess waiver and travel insurance fees and GDS reservation booking fees related to certain of the services listed above.

- 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.com for advertising on its websites; and (4) revenues generated by Booking.com's BookingSuite branded accommodation marketing and business analytics services. Revenue from KAYAK is net of intercompany revenues earned by KAYAK from other Priceline Group brands.

| | Three Months Ended June 30, (in thousands) | | Change | Six Months Ended June 30, (in thousands) | | Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | |
| *Agency Revenues* | $ 1,852,961 | $ 1,582,153 | 17.1 % | $ 3,352,990 | $ 2,781,501 | 20.5 % |
| *Merchant Revenues* | 517,867 | 546,013 | (5.2)% | 987,899 | 1,040,688 | (5.1)% |
| *Advertising and Other Revenues* | 185,074 | 152,231 | 21.6 % | 363,132 | 298,902 | 21.5 % |
| *Total Revenues* | $ 2,555,902 | $ 2,280,397 | 12.1 % | $ 4,704,021 | $ 4,121,091 | 14.1 % |

*Agency Revenues*

Agency revenues for the three and six months ended June 30, 2016 increased 17.1% and 20.5%, respectively, compared to the three and six months ended June 30, 2015 primarily as a result of growth in the agency business of Booking.com, as well as the agency hotel business of agoda.com and the agency rental car businesses of Rentalcars.com and priceline.com. The U.S. Dollar was stronger against the British Pound Sterling and many other currencies for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, which adversely affected the growth of our agency revenues, expressed in U.S. Dollars.

*Merchant Revenues*

Merchant revenues for the three and six months ended June 30, 2016 decreased 5.2% and 5.1%, respectively, compared to the three and six months ended June 30, 2015 primarily due to decreases in revenues from priceline.com's *Name Your Own Price®* hotel, airline ticket and rental car reservation services, partially offset by increases in our merchant price-disclosed hotel, rental car and airline ticket businesses. Our priceline.com *Name Your Own Price®* reservation services, which declined year-over-year, are recorded "gross" with a corresponding travel service provider cost recorded in cost of revenues. Our other merchant revenues, which in total grew year-over-year, are recorded in revenue "net" of travel service provider costs. As a result, changes in *Name Your Own Price®* reservation revenue disproportionately affect merchant revenues as compared to our other merchant revenues. We therefore believe that gross profit is an important measure of evaluating growth in our business. The U.S. Dollar was stronger against the British Pound Sterling and many other currencies for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, which adversely affected the growth of our merchant revenues, expressed in U.S. Dollars.

*Advertising and Other Revenues*

Advertising and other revenues during the three and six months ended June 30, 2016 consisted primarily of advertising revenues, restaurant reservation fees and subscription revenues for restaurant reservation management services. Advertising and other revenues for the three and six months ended June 30, 2016 increased 21.6% and 21.5%, respectively, compared to the three and six months ended June 30, 2015 primarily due to growth in our KAYAK business, reservation fees at OpenTable, advertising revenue at priceline.com and subscription revenue at OpenTable.

***Cost of Revenues***

| | Three Months Ended June 30, (in thousands) | | Change | Six Months Ended June 30, (in thousands) | | Change |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | |
| *Cost of Revenues* | $ 126,084 | $ 187,491 | (32.8)% | $ 254,753 | $ 355,949 | (28.4)% |

For the three and six months ended June 30, 2016, cost of revenues consisted primarily of: (1) the cost paid to travel service providers for priceline.com's *Name Your Own Price®* and vacation package reservation services, net of applicable taxes and charges; and (2) fees paid to third parties by KAYAK and priceline.com to return travel itinerary information for consumer search queries. Cost of revenues for the three and six months ended June 30, 2016 decreased by 32.8% and 28.4%, respectively, compared to the three and six months ended June 30, 2015 primarily due to a decrease in priceline.com's *Name*

*Your Own Price*® reservation services. Cost of revenues for the six months ended June 30, 2015 was positively impacted by a reversal of previously accrued travel transaction taxes of $16.4 million (including estimated interest and penalties) recorded in the first quarter of 2015 based on a favorable ruling in the State of Hawaii.

Agency revenues have no cost of revenue. Agency revenues principally consist of travel commissions on accommodation reservations.

***Gross Profit***

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | **Change** | **2016** | **2015** | **Change** |
| *Gross Profit* | $ 2,429,818 | $ 2,092,906 | 16.1% | $ 4,449,268 | $ 3,765,142 | 18.2% |
| *Gross Margin* | 95.1% | 91.8% | | 94.6% | 91.4% | |

Total gross profit for the three and six months ended June 30, 2016 increased by 16.1% and 18.2%, respectively, compared to the three and six months ended June 30, 2015 (growth on a constant-currency basis was approximately 18% and 22%, respectively), primarily as a result of the increased revenue discussed above. Total gross margin (gross profit as a percentage of total revenue) increased during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, because our revenues are disproportionately affected by priceline.com's *Name Your Own Price*® reservation services. *Name Your Own Price*® revenues are recorded "gross" with a corresponding travel service provider cost recorded in cost of revenues, and in the three and six months ended June 30, 2016 these revenues represented a smaller percentage of total revenues than in the three and six months ended June 30, 2015. Our price-disclosed reservation services, which are recorded in revenue "net" of travel service provider costs, have been growing while priceline.com's *Name Your Own Price*® reservation services have declined. As a result, we believe that gross profit is an important measure for evaluating growth in our business.

Our international operations accounted for approximately $2.1 billion and $3.8 billion of our gross profit for the three and six months ended June 30, 2016, respectively, compared to $1.8 billion and $3.2 billion for the three and six months ended June 30, 2015. Gross profit attributable to our international operations increased by 17.5% and 20.1%, respectively (growth on a constant-currency basis was approximately 19% and 24%, respectively) for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015. The U.S. Dollar was stronger against the British Pound Sterling and many other currencies for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, which adversely affected the growth of our total and international gross profit, expressed in U.S. Dollars. Gross profit attributable to our U.S. businesses increased by 7.9% and 7.5% for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015.

Gross profit for the six months ended June 30, 2015 was positively impacted by a reversal of previously accrued travel transaction taxes of $16.4 million (including estimated interest and penalties) recorded in the first quarter of 2015 based on a favorable ruling in the State of Hawaii. Our second quarter 2016 year-over-year growth rates in revenue, gross profit, operating income and operating margins were negatively impacted by Easter falling in the first quarter instead of the second quarter, as it did in 2015, which resulted in Easter-related checkouts, and therefore related revenue and gross profit, generally falling in the first quarter of 2016. We estimate that the earlier Easter timing shifted approximately $40 million of gross profit into the first quarter of 2016 that would have been recognized in the second quarter if Easter had fallen in the second quarter, as it did in 2015.

***Operating Expenses***

*Advertising*

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | **Change** | **2016** | **2015** | **Change** |
| *Performance Advertising* | $ 920,763 | $ 758,690 | 21.4% | $ 1,700,672 | $ 1,392,234 | 22.2% |
| *% of Total Gross Profit* | 37.9% | 36.3% | | 38.2% | 37.0% | |
| *Brand Advertising* | $ 112,321 | $ 78,431 | 43.2% | $ 182,166 | $ 151,685 | 20.1% |
| *% of Total Gross Profit* | 4.6% | 3.7% | | 4.1% | 4.0% | |

Performance advertising 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. For the three and six months ended June 30, 2016, performance advertising expenses increased over the three and six months ended June 30, 2015, primarily to generate increased gross bookings. Performance advertising as a percentage of gross profit for the three months ended June 30, 2016 increased compared to the three months ended June 30, 2015 due to timing of booking versus travel (including Easter shifting into the first quarter of 2016) and growth of paid traffic channels. Performance advertising as a percentage of gross profit for the six months ended June 30, 2016 increased compared to the six months ended June 30, 2015 due to the timing difference related to recognizing performance advertising expense when incurred but recognizing revenue at the time of travel and growth of paid traffic channels. Performance advertising as a percentage of gross profit for the six months ended June 30, 2015 was positively impacted by a reversal of previously accrued travel transaction taxes of $16.4 million (including estimated interest and penalties) based on a favorable ruling in the State of Hawaii.

Brand advertising expenses are primarily related to our Booking.com, KAYAK and priceline.com businesses and consist mainly of television advertising, online video advertising (including the airing of our television advertising online) and online display advertising. For the three and six months ended June 30, 2016, brand advertising expenses increased compared to the three and six months ended June 30, 2015, primarily due to increased television advertising, including associated production costs and agency fees, and online video advertising, principally related to our Booking.com business.

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

*Sales and Marketing*

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | **Change** | **2016** | **2015** | **Change** |
| *Sales and Marketing* | $ 105,522 | $ 94,523 | 11.6% | $ 197,845 | $ 176,467 | 12.1% |
| *% of Total Gross Profit* | 4.3% | 4.5% | | 4.4% | 4.7% | |

Sales and marketing expenses consist primarily of (1) credit card processing fees associated with merchant transactions; (2) fees paid to third parties that provide call center, website content translations and other services; (3) customer relations costs; (4) provisions for bad debt, primarily related to agency accommodation commission receivables; (5) provisions for credit card chargebacks; and (6) promotional and trade show costs. For the three and six months ended June 30, 2016, sales and marketing expenses, which are substantially variable in nature, increased compared to the three and six months ended June 30, 2015 due primarily to increased gross booking volumes.

*Personnel*

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Personnel* | $ 332,654 | $ 289,156 | 15.0% | $ 641,005 | $ 548,140 | 16.9% |
| *% of Total Gross Profit* | 13.7% | 13.8% | | 14.4% | 14.6% | |

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, 2016 compared to the three and six months ended June 30, 2015 due primarily to increased headcount to support the growth of our businesses. Personnel expenses for the six months ended June 30, 2016 were favorably impacted by the reversal of unpaid 2015 bonus accruals.

*General and Administrative*

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *General and Administrative* | $ 112,642 | $ 98,945 | 13.8% | $ 225,687 | $ 199,123 | 13.3% |
| *% of Total Gross Profit* | 4.6% | 4.7% | | 5.1% | 5.3% | |

General and administrative expenses consist primarily of: (1) occupancy and office expenses; (2) personnel-related expenses such as travel, 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, 2016 compared to the three and six months ended June 30, 2015, due primarily to higher occupancy and office expenses related to the expansion of our international businesses, higher personnel-related expenses related to increased headcount in all of our businesses, and higher fees for outside professionals.

*Information Technology*

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Information Technology* | $ 35,797 | $ 27,156 | 31.8% | $ 68,585 | $ 52,517 | 30.6% |
| *% of Total Gross Profit* | 1.5% | 1.3% | | 1.5% | 1.4% | |

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 expense increased during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, due primarily to growth in our worldwide operations.

*Depreciation and Amortization*

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Depreciation and Amortization* | $ 77,712 | $ 67,674 | 14.8% | $ 150,583 | $ 132,676 | 13.5% |
| *% of Total Gross Profit* | 3.2% | 3.2% | | 3.4% | 3.5% | |

Depreciation and amortization expenses consist of: (1) amortization of intangible assets with determinable lives; (2) depreciation on computer equipment; (3) depreciation of internally developed and purchased software; and (4) depreciation of leasehold improvements, furniture and fixtures and office equipment. For the three and six months ended June 30, 2016, depreciation and amortization expenses increased compared to the three and six months ended June 30, 2015 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, as well as increased capitalized software development costs.

***Other Income (Expense)***

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Interest Income* | $ 21,292 | $ 13,037 | 63.3 % | $ 41,639 | $ 24,633 | 69.0% |
| *Interest Expense* | (50,290) | (41,547) | 21.0 % | (97,184) | (75,026) | 29.5% |
| *Foreign Currency Transactions and Other* | 1,997 | (1,444) | (238.3)% | (10,931) | (6,287) | 73.9% |
| *Impairment of cost-method investments* | (12,858) | — | 100.0 % | (63,208) | — | 100.0% |
| *Total* | $ (39,859) | $ (29,954) | 33.1 % | $ (129,684) | $ (56,680) | 128.8% |

For the three and six months ended June 30, 2016, interest income on cash and marketable securities increased compared to the three and six months ended June 30, 2015, primarily due to an increase in the average invested balance and higher yields. Interest expense increased for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, primarily due to interest expense attributable to our Senior Notes issued in November 2015 and May 2016. Interest expense increased for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily due to interest expense attributable to our Senior Notes issued in March 2015, November 2015 and May 2016, partially offset by the maturity of our 1.25% Convertible Senior Notes in March 2015. See Note 7 to our Unaudited Consolidated Financial Statements.

Derivative contracts that hedge our exposure to the impact of currency fluctuations on the translation of our international operating results into U.S. Dollars upon consolidation resulted in foreign exchange gains of $3.9 million and $0.3 million for the three and six months ended June 30, 2016, respectively, compared to foreign exchange losses of $1.7 million and foreign exchange gains of $0.2 million for the three and six months ended June 30, 2015, respectively, and are recorded in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

Foreign exchange transaction losses, including costs related to foreign exchange transactions, resulted in foreign exchange losses of $3.8 million and $10.1 million for the three and six months ended June 30, 2016, respectively, and foreign exchange losses of $1.2 million and $9.6 million for the three and six months ended June 30, 2015, respectively, and are recorded in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

For the three and six months ended June 30, 2016 we recognized $2.1 million of net realized gains and $0.8 million of net realized losses, respectively, compared to $1.6 million and $3.4 million of net realized gains for the three and six months ended June 30, 2015, respectively, related to investments, which are recorded in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

During the three and six months ended June 30, 2016, we recognized impairments of approximately $13 million and $63 million, respectively, related to cost-method investments (see Note 4 to the Unaudited Consolidated Financial Statements).

***Income Taxes***

| | Three Months Ended June 30, (in thousands) | | | Six Months Ended June 30, (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| *Income Tax Expense* | $ 111,910 | $ 131,345 | (14.8)% | $ 197,979 | $ 205,261 | (3.5)% |

Our effective tax rate for the three and six months ended June 30, 2016 was 16.2% and 17.2%, respectively, compared to 20.3% and 19.4% for the three and six months ended June 30, 2015, respectively. Our effective tax rate differs from the U.S. federal statutory tax rate of 35%, due to lower tax rates outside the United States, partially offset by U.S. state income taxes and certain non-deductible expenses. Our effective tax rate was lower for the three and six months ended June 30, 2016, compared to the three and six months ended June 30, 2015, primarily due to U.S. state tax law changes which resulted in a decrease to our deferred tax liabilities associated with acquired intangible assets and an increased proportion of our income being taxed at lower international tax rates due to the growth of our international businesses, offset by an increase in the tax rate that arises because the impairments of our Hotel Urbano investment of approximately $50 million in the first quarter of 2016 and approximately $10 million in the second quarter of 2016 are not tax deductible (see Note 4 to the Unaudited Consolidated Financial Statements). According to Dutch corporate income tax law, income generated from qualifying innovative activities is taxed at a rate of 5% ("Innovation Box Tax") rather than the Dutch statutory rate of 25%. A portion of Booking.com's earnings during the three and six months ended June 30, 2016 and 2015 qualified for Innovation Box Tax treatment, 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. See Part II Item 1A Risk Factors - "*We may not be able to maintain our 'Innovation Box Tax' benefit.* "

Until our U.S. net operating loss carryforwards are utilized or expire, most of our U.S. income will not be subject to a cash tax liability, other than federal alternative minimum tax and state income taxes. However, we expect to pay foreign taxes on our international income except in countries where we have net operating loss carryforwards. We expect that our international operations will grow their pretax income faster than our U.S. businesses over the long term and, therefore, it is our expectation that our cash tax payments will increase as our international businesses generate an increasing share of our pretax income and upon full utilization of our U.S. net operating loss carryforwards.

As of June 30, 2016, we held approximately $10.7 billion of cash, cash equivalents, short-term investments and long-term investments outside of the United States. We currently intend to use our cash held outside the United States to reinvest in our international operations. If that intention changes and we decide to repatriate that cash to the United States, whether due to cash needs in the United States or otherwise, we would incur related U.S. income tax expense, and we would only make income tax payments when we repatriate the cash. We would pay only U.S. federal alternative minimum tax and certain U.S. state income taxes as long as we have net operating loss carryforwards available to offset our U.S. taxable income. As of December 31, 2015, we had net operating loss carryforwards of $847.9 million and $620.9 million for federal and state tax purposes, respectively. If our foreign earnings were repatriated, this could result in us being subject to a cash income tax liability on the earnings of our U.S. businesses sooner than would otherwise have been the case. After our net operating loss carryforwards have been fully utilized, foreign tax credits associated with the repatriation of international cash may be used to reduce U.S. federal taxes on the repatriation.

**Liquidity and Capital Resources**

As of June 30, 2016, we had $12.3 billion in cash, cash equivalents, short-term investments and long-term investments. Approximately $10.7 billion is held by our international subsidiaries and is denominated primarily in U.S. Dollars, Euros and, to a lesser extent, British Pounds Sterling and other currencies. We currently intend to indefinitely reinvest these funds outside of the United States. If we repatriate cash to the United States, we would utilize our net operating loss carryforwards and beyond that amount incur additional tax payments in the United States. Cash equivalents, short-term investments and long-term investments are comprised of U.S. and foreign corporate bonds, U.S. and foreign government securities, commercial paper, U.S. government agency securities, convertible debt securities and American Depositary Shares ("ADSs") of Ctrip and bank deposits.

In May 2016, we 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. Interest on the 2026 Notes is payable semi-annually on June 1 and December 1, beginning December 1, 2016. The net proceeds of these notes may be used for general corporate purposes, which may include share repurchases, repayment of debt and acquisitions. See Note 7 to the Unaudited Consolidated Financial Statements for further details on the 2026 Notes.

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. As of June 30, 2016, there were no borrowings outstanding and approximately $3.6 million of letters of credit issued under the facility.

During the six months ended June 30, 2016, we repurchased 437,798 shares of our common stock for an aggregate cost of $558.7 million, which includes stock repurchases in June 2016 of 27,320 shares for an aggregate cost of $33.5 million that were settled in July 2016. As of June 30, 2016, we had a remaining authorization of $2.6 billion from our Board of Directors to purchase our common stock. During the period from July 1, 2016 through July 29, 2016, we repurchased 52,609 additional shares for an aggregate cost of $68.6 million. 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. We expect to use cash on hand and cash generated by our operations in the United States to fund our share repurchases. We may also utilize our revolving credit facility or raise funds through the debt capital markets to fund share repurchases.

Our merchant transactions are structured such that we collect cash up front from consumers and then we pay most of our travel service providers at a subsequent date. We therefore tend to experience significant seasonal swings in accounts receivable, deferred merchant bookings and travel service provider payables depending on the level of our merchant transactions during the last few weeks of every quarter.

Net cash provided by operating activities for the six months ended June 30, 2016 was $1.3 billion, resulting from net income of $955.1 million, a favorable impact of $309.0 million for non-cash items not affecting cash flows and net favorable changes in working capital and other assets and liabilities of $46.3 million. For the six months ended June 30, 2016, prepaid expenses and other current assets increased by $287.0 million, primarily related to prepayments of 2016 income taxes in the first quarter of $431.3 million to earn prepayment discounts, principally by Booking.com. For the six months ended June 30, 2016, accounts receivable increased $344.1 million and accounts payable, accrued expenses and other current liabilities increased by $688.0 million, primarily related to seasonality and increases in business volumes. Our 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, impairment of cost-method investments, amortization of debt discount on our convertible notes and deferred income taxes.

Net cash provided by operating activities for the six months ended June 30, 2015 was $911.4 million, resulting from net income of $850.4 million and a favorable impact of $257.0 million for non-cash items not affecting cash flows, partially offset by net unfavorable changes in working capital and other assets and liabilities of $196.0 million. For the six months ended June 30, 2015, prepaid expenses and other current assets increased by $300.5 million, principally related to a $423.8 million prepayment of 2015 income taxes in the first six months by Booking.com to earn a prepayment discount. For the six months ended June 30, 2015, accounts receivable increased $287.9 million and accounts payable, accrued expenses and other current liabilities increased by $405.8 million, primarily related to seasonality and increases in business volumes. The growth in deferred merchant bookings was partly offset by an initiative at agoda.com which allows their customers to pay near the time of travel rather than at the time of making a reservation. Non-cash items were principally associated with stock-based compensation expense, depreciation and amortization, amortization of debt discount of our convertible notes and deferred income taxes.

Net cash used in investing activities was $639.3 million for the six months ended June 30, 2016. Investing activities for the six months ended June 30, 2016 were principally affected by net purchases of investments of $524.8 million. Net cash used in investing activities was $2.6 billion for the six months ended June 30, 2015. Investing activities for the six months ended June 30, 2015 were affected by net purchases of investments of $2.5 billion, $45.9 million used for acquisitions, net of cash acquired, and net proceeds of $5.2 million for the settlement of foreign currency contracts. Cash invested in the purchase of property and equipment was $113.7 million and $84.4 million in the six months ended June 30, 2016 and 2015, respectively.

Net cash provided by financing activities was $540.8 million for the six months ended June 30, 2016. Cash provided by financing activities for the six months ended June 30, 2016 primarily consisted of net proceeds of $994.7 million from the issuance of Senior Notes, excess tax benefits on stock-based awards and other equity deductions of $61.5 million and the exercise of employee stock options of $9.8 million, partially offset by treasury stock purchases of $525.1 million. Net cash provided by financing activities was $0.6 billion for the six months ended June 30, 2015. Cash provided by financing activities for the six months ended June 30, 2015 primarily consisted of total net proceeds of $1.6 billion from the issuance of Senior Notes, the exercise of employee stock options of $12.8 million and excess tax benefits on stock-based awards and other equity deductions of $68.2 million, partially offset by treasury stock purchases of $986.6 million and payments of $147.6 million related to the conversion of Senior Notes.

*Contingencies*

French tax authorities recently concluded an audit that started in 2013 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 intend to contest the assessments. If we are unable to resolve the matter with the French 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 any such payment would not constitute an admission by us that we owe the taxes. French authorities may decide to also audit subsequent tax years, which could result in additional assessments. See Part II Item IA Risk Factors - "*We may have exposure to additional tax liabilities.*"

A number of U.S. jurisdictions 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. For additional information, see Note 11 to our Unaudited Consolidated Financial Statements and Part II Item 1A Risk Factors - "*Adverse application of U.S. state and local tax laws could have an adverse effect on our business and results of operations.*" in this Quarterly Report.

As a result of this litigation and other attempts by U.S. jurisdictions to levy similar taxes, we have established an accrual (including estimated interest and penalties) for the potential resolution of issues related to travel transaction taxes in the amount of approximately $27 million as of June 30, 2016 and December 31, 2015. The accrual is based on our estimate of the probable cost of resolving these issues. Our legal expenses for these matters are expensed as incurred and are not reflected in the amount accrued. The actual cost may be less or greater, potentially significantly, than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount accrued cannot be reasonably made. If we were to suffer adverse determinations in the near term in more of the pending proceedings than currently anticipated given results to date, because of our available cash we believe that it would not have a material impact on our liquidity.

*Off-Balance Sheet Arrangements*

As of June 30, 2016, 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, 2015, 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 foreign 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, 2016. Based upon economic conditions and leading market indicators at June 30, 2016, we do not foresee a significant adverse change in interest rates in the near future.

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 as of June 30, 2016 of approximately $153 million. These hypothetical losses would only be realized if we sold the investments prior to their maturity.

As of June 30, 2016, the outstanding aggregate principal amount of our debt was approximately $7.6 billion. We estimate that the fair value of such debt was approximately $8.2 billion as of June 30, 2016. A substantial portion of the fair value of our debt in excess of the outstanding principal amount is related 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, gross profit, operating expenses, and net income. Similarly, our net assets, gross bookings, gross profit, 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 the Unaudited Consolidated Statements of Operations.

Throughout 2015, the U.S. Dollar strengthened significantly year-over-year relative to substantially all currencies in which we transact, most notably the Euro, Brazilian Real, British Pound Sterling, Russian Ruble and Australian Dollar. In the first half of 2016, the U.S. Dollar continued to be stronger year-over-year relative to the British Pound Sterling, Russian Ruble, Brazilian Real and many other major currencies in which we transact. Following the “Brexit” referendum in the United Kingdom in June 2016, the U.S. Dollar strengthened significantly against the British Pound Sterling, and whether or when the British Pound Sterling will recover is unknown. As a result of these currency exchange rate changes, our foreign currency denominated net assets, gross bookings, gross profit, operating expenses and net income have been negatively impacted as expressed in U.S. Dollars, although to a much lesser extent in the first half of 2016 than in the first half of 2015. Since our expenses are generally denominated in foreign currencies on a basis similar to our revenues, our operating margins are not significantly impacted by currency fluctuations. The aggregate principal value of our Euro-denominated 2022 Notes, 2024 Notes and 2027 Notes, and accrued interest thereon, provide a natural hedge of the net assets of certain of our Euro functional currency subsidiaries.

From time to time, we enter into foreign exchange derivative contracts to minimize the impact of short-term foreign currency fluctuations on our consolidated operating results. Our derivative contracts principally address foreign exchange fluctuation risk for the Euro, the British Pound Sterling and certain other currencies versus the U.S. Dollar. As of June 30, 2016 and December 31, 2015, there were no such outstanding derivative contracts. Foreign exchange gains of $3.9 million and $0.3 million for the three and six months ended June 30, 2016, respectively, compared to foreign exchange losses of $1.7 million and foreign exchange gains of $0.2 million for the three and six months ended June 30, 2015, respectively, are recorded in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

## 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, 2016 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 contained in Note 11 to our Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for the three months ended June 30, 2016, 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 significantly dependent upon the sale of travel services. Travel, including accommodation (including hotels, bed and breakfasts, hostels, apartments, vacation rentals and other properties), rental car and airline ticket reservations, is dependent on discretionary spending levels. As a result, sales of travel services tend to decline during general economic downturns and recessions when 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. For example, the recent worldwide recession led to a weakening in the fundamental demand for our travel reservation services and an increase in the number of consumers who canceled existing travel reservations with us. Also during the recession, the accommodation industry experienced a significant decrease in occupancy rates and average daily rates ("ADRs"). 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 ADRs generally have a negative effect on our accommodation reservation business and a negative effect on our gross profit.

Many governments around the world, including the U.S. government and certain European governments, are operating at large financial deficits, resulting in high levels of sovereign debt in such countries. Greece, Ireland, Portugal and certain other European Union countries with high levels of sovereign debt at times have had difficulty refinancing their debt. Failure to reach political consensus regarding workable solutions to these issues has resulted in a high level of uncertainty regarding the future economic outlook. This uncertainty, as well as concern over governmental austerity measures including higher taxes and reduced government spending, could impair consumer spending and adversely affect travel demand. At times, we have experienced volatility in transaction growth rates and cancellation rates and weaker trends in hotel ADRs across many regions of the world, particularly in those European countries that appear to be most affected by economic uncertainties. We believe that these business trends are likely impacted by weak economic conditions and sovereign debt concerns. Similarly, while China's economy experienced rapid growth over the past 20 years, growth of the Chinese economy slowed in 2015 and concerns about its future growth have had an adverse impact on financial markets, currency exchange rates and other economies. Disruptions in the economies of such countries 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. In addition, although lower oil prices may lead to increased travel activity as consumers have more discretionary funds and airline fares decrease, recent declines in oil prices and stock market volatility may be indicative of broader macro-economic weakness, which in turn could negatively affect the travel industry and our business.

Greece, in particular, has recently faced and continues to face significant economic challenges, in large part due to its high levels of sovereign debt and difficulties refinancing that debt. This may increase the likelihood that Greece, and in turn other countries, could exit the European Union, which could lead to added economic and political uncertainty and further devaluation or eventual abandonment of the Euro common currency.

On June 23, 2016, the United Kingdom held a referendum in which British citizens approved an exit from the European Union, commonly referred to as "Brexit." Following the referendum, global markets and foreign exchange rates experienced increased volatility, including a sharp decline in the value of the British Pound Sterling as compared to the U.S. Dollar. To leave the European Union, the United Kingdom must provide official notice of its decision to leave and negotiate the terms of its exit, which could take two years or more. 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 unknown, we are unable to predict the effect Brexit will have on our business 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 further 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. For the last twelve months ended June 30, 2016, the U.K. destination gross profit and U.K. source market gross bookings were 10% or less as a share of our business.

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. For example, we have experienced an increase in cancellation rates, which we believe is due in part to these macro-economic factors and a resulting lack of consumer confidence. Increased cancellation rates negatively affect our advertising efficiency and our results of operations.

In addition, other unforeseen events beyond our control, such as worldwide recession, oil prices, 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, Influenza H1N1, avian bird flu, SARS and MERS, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities or travel-related accidents, can disrupt travel or otherwise result in declines in travel demand. Because these events or concerns 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. For example, our business and operations were negatively impacted by the terror attacks in Paris in November 2015, Brussels in March 2016, Orlando in June 2016 and Nice in July 2016; the coup attempt in Turkey in July 2016; Hurricane Sandy, which disrupted travel in the northeastern United States in late 2012; a major earthquake, tsunami and nuclear emergency in Japan in 2011; severe flooding in Thailand in October 2011; and disruptive civil unrest in Thailand in 2014. In addition, MERS had an adverse impact on our business in northeast Asia in 2015. Also, in 2015 regional hostilities in the Middle East spurred an unprecedented flow of migrants from that region to Europe. As countries respond to the European migrant crisis, travel between countries in 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. Future terrorist attacks, natural disasters, health concerns or civil or political unrest 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 with both online and traditional travel and restaurant reservation and related services. The market for the services we offer is 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, 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 through its acquisition in 2011 of ITA Software, Inc., a major flight information software company, its hotel search and reservation booking business ("Book on Google") and its license of hotel-booking software from Room 77.

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, CarRentals.com and Venere, which are owned by Expedia; Hotel Reservation Service (HRS) and hotel.de, which are owned by Hotel Reservation Service; and AutoEurope, Car Trawler, Ctrip (in which we hold a minority interest), eLong (in which Ctrip has acquired a significant minority ownership interest), MakeMyTrip, Webjet, Rakuten, Jalan (which is owned by Recruit), Hotel Urbano (in which we hold a minority interest), ViajaNet, Submarino Viagens, Despegar/Decolar, 17u.com, HotelTonight, Bookit.com, CheapOair, Mr. and Mrs. Smith and eDreams ODIGEO;

- online accommodation search and/or reservation services, such as Airbnb and HomeAway (which is owned by Expedia), currently focused on vacation rental properties and other non-hotel accommodations, including individually owned properties;

- large online companies, including search, social networking and marketplace companies such as Google, Facebook, Alibaba, Amazon and Groupon;
- traditional travel agencies, wholesalers and tour operators, many of which combine physical locations, telephone services and online services, such as Carlson Wagonlit, American Express, Thomas Cook and TUI, 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, 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 TripAdvisor, trivago (in which Expedia holds a majority ownership interest), Qunar (which is controlled by Ctrip), Skyscanner, HotelsCombined and Traveloka;
- online restaurant reservation services, such as TripAdvisor's LaFourchette, Yelp's SeatMe, Zomato, Bookatable (which is owned by Michelin) and Quandoo (which is owned by Recruit); and
- 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 and Ola.

TripAdvisor, a leading travel research and review website, Google, the world's largest search engine, 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, both in the United States and internationally. 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. TripAdvisor has begun supporting its meta-search service with offline advertising, and trivago, a leading meta-search service in Europe, has been aggressively advertising in the United States since 2013. 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, KAYAK's 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 advertising 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 profits from our KAYAK meta-search business to offset any related decrease in profits experienced by our travel service reservation 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 facilitates hotel reservations on its transaction websites Tingo and Jetsetter and, with respect to some accommodations, allows consumers to make a reservation while staying on TripAdvisor through its "Instant Booking" offering. Instant Booking now includes participation from six out of the top 10 global hotel brands, including Marriott International, Hyatt Hotels and Best Western International. 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." Other meta-search providers may also offer direct booking services with travel service providers, which may lead to more consumers booking directly with a travel service provider rather than an OTC. For example, in September 2015 Google announced the discontinuation of its Hotel Finder meta-search service in favor of integrating hotels directly into search results and encouraging users to book hotel reservations directly through Google's "Book on Google" service, which it is now expanding from mobile phones to both desktops and tablets. To the extent consumers book travel services through a service such as 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 advertising 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 vacation rental property owners, particularly individuals, an online place to list their accommodations where travelers can search and book such properties. Airbnb may also seek to compete directly with us by offering hotel and other accommodations through their 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.

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. Marriott International, Hilton and Hyatt Hotels each recently announced additional initiatives to encourage consumers to book accommodations directly through their websites, with increased discounting and incentives. 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. 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.com's *Name Your Own Price®* and *Express Deals®* services. Further, consolidation among travel service providers, such as Marriott International's planned acquisition 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.

Competition in U.S. online travel remains intense and online travel companies are creating new promotions and consumer value features in an effort to gain competitive advantages. In particular, the competition to provide "opaque" accommodation reservation services to consumers, an area in which our priceline.com business has been a leader, has become more intense. For example, Expedia makes opaque accommodation room reservations available through its Hotwire brand and on its principal website under the name "Expedia Unpublished Rates" and has, we believe, supported this initiative with steeper discounts through lower margins. We believe these offerings, in particular "Expedia Unpublished Rates," have adversely impacted the market share and year-over-year growth rate for priceline.com's *Name Your Own Price®* opaque hotel reservation service, which has been experiencing a decline in room night reservations since 2011. Competitors could also launch opaque rental car services, which could negatively impact priceline.com's opaque *Name Your Own Price®* rental car reservation service. If Expedia or others are successful in growing their opaque reservation services, we may have less consumer demand for our opaque reservation services over time, and we would face more competition for access to the limited supply of discounted reservation rates. As a result of this increased competition, our share of the discount accommodation reservation market in the United States could further decrease, which could harm our business and results of operations. High hotel occupancy levels in the United States have had an adverse impact on our access to discounted hotel room rates for our opaque hotel reservation services. Further, growth in discounted closed user group retail prices for hotel rooms lessens the price difference for members of the closed user group between a retail hotel reservation and an opaque hotel reservation, which we believe has led to fewer consumers using our opaque hotel reservation services.

During 2015, Expedia acquired Travelocity, Orbitz and HomeAway. To the extent these acquisitions enhance Expedia's ability to compete with us, in particular in the United States, which is Expedia's, Travelocity's, Orbitz's and HomeAway's largest market, our market share, business and results of operations could be adversely affected.

*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 adverse 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. Throughout 2015, the U.S. Dollar strengthened significantly year-over-year relative to substantially all currencies in which we transact, most notably the Euro, Brazilian Real, British Pound Sterling, Russian Ruble and Australian Dollar. In the first half of 2016, the U.S. Dollar continued to be stronger year-over-year relative to the British Pound Sterling, Russian Ruble, Brazilian Real and many other major currencies in which we transact. Following the "Brexit" referendum in the United Kingdom in June 2016, the U.S. Dollar strengthened significantly against the British Pound Sterling, and whether or when the British Pound Sterling will recover is unknown. As a result of these currency exchange rate changes, our foreign currency denominated net assets, gross bookings, gross profit, operating expenses and net income have been negatively impacted as expressed in U.S. Dollars, although to a much lesser extent in the first half of 2016 than in the first half of 2015. For example, gross profit from our international operations grew 17.5% and 20.1% for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, but, without the negative impact of changes in currency exchange rates, grew year-over-year on a constant-currency basis by approximately 19% and 24%.

Certain European Union countries with high levels of sovereign debt have had difficulty at times refinancing their debt. Concern around devaluation or abandonment of the Euro common currency, or that sovereign default risk may become more widespread, has led to significant volatility in the exchange rate between the Euro, the British Pound Sterling, the U.S. Dollar and other currencies. Since the "Brexit" referendum in the United Kingdom in June 2016, global markets and foreign exchange rates have experienced increased volatility, including a sharp decline in the value of the British Pound Sterling as compared to the U.S. Dollar. In March 2015, the European Central Bank, in an effort to stimulate the European economy, launched a quantitative easing program to purchase public debt and, in March 2016, announced an expansion of the program and other stimulus measures.

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 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 adversely affect our results of operations.

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

We derive a substantial portion of our revenues, and have significant operations, outside the United States. Our international operations include the Netherlands-based accommodation reservation service Booking.com, the Asia-based accommodation reservation service agoda.com, the U.K.-based rental car reservation service Rentalcars.com and, to a lesser extent, KAYAK's international meta-search services and OpenTable's international restaurant reservation business. Our international OTC operations have achieved significant year-over-year growth in their gross bookings (an operating and statistical metric referring to the total dollar value, generally inclusive of all taxes and fees, of all travel services booked by our customers, net of cancellations). This growth rate, which has contributed significantly to our growth in consolidated revenue, gross profit and earnings, has 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, any 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 could have a negative impact on our future consolidated revenue, gross profit and earnings growth rates and, as a consequence, our stock price.

Our strategy involves continued international 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, results of operations and financial condition 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, including hotels, bed and breakfasts, hostels and vacation rentals. Vacation rentals generally consist of, among others, properties categorized as single-unit and multi-unit villas, apartments, "aparthotels" (which are apartments with a front desk and cleaning service) and chalets and are generally self-catered (i.e., include a kitchen), directly bookable properties. Many of the newer accommodations we add to our travel reservation services, especially in highly penetrated markets, may have fewer rooms, lower ADRs or higher credit risk and may appeal to a smaller subset of consumers (e.g., hostels and bed and breakfasts), and therefore may also negatively impact our margins. For example, because a vacation rental is typically either a single unit or a small collection of independent units, vacation rental properties represent more limited booking opportunities than non-vacation rental properties, which generally have more units to rent per property. Our vacation rental accommodations in general may be subject to increased seasonality due to local tourism seasons, weather or other factors. As we increase our vacation rental accommodation business, these different market characteristics could negatively impact our profit margins; and, to the extent these properties represent an increasing percentage of the properties added to our websites, our gross bookings growth rate and property growth rate will likely continue to diverge over time (since each such property has fewer booking opportunities). As a result of the foregoing, as the percentage of vacation rental accommodations increases, the number of reservations per property will likely continue to decrease.

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. As a result, we may experience constraints on the number of accommodation room nights available to us, which could negatively impact our growth rate and results of operations.

The number of our employees worldwide has grown from less than 700 in the first quarter of 2007 to approximately 17,600 as of June 30, 2016, 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 advertising channels to generate a significant amount of traffic to our websites and enhance our brand awareness.*

We believe that maintaining and expanding the Booking.com, priceline.com, KAYAK, agoda.com, Rentalcars.com and OpenTable brands, along with our other owned brands, are important aspects of our efforts to attract and retain customers. Effective performance advertising has been an important factor in our growth, and we believe it will continue to be important to our future success. In addition, we have invested considerable money and resources in the establishment and maintenance of our brands, and we will continue to invest resources in brand advertising, marketing and other brand building efforts to preserve and enhance consumer awareness of our brands. As our competitors spend increasingly more on advertising, we are required to spend more in order to maintain our brand recognition and, in the case of performance advertising, to maintain and grow traffic to our websites. 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. 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 advertising efficiency, expressed as performance advertising expense as a percentage of gross profit, 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 advertising 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. Our performance advertising expense has increased significantly in recent years, a trend we expect to continue. In addition, from 2011 to 2013 our performance advertising grew faster than our gross profit due to (1) year-over-year declines in performance advertising returns on investment and (2) brand mix within The Priceline Group as our international brands grew faster than our U.S. brands and spent a higher percentage of gross profit on performance advertising. In 2014, these long-term trends continued, but were more than offset by the inclusion of KAYAK and OpenTable because they spend a lower percentage of gross profit on performance advertising than our other brands. Also, our consolidated results exclude intercompany advertising by our brands on KAYAK. In 2015, performance advertising efficiency declined compared to the prior year, mainly due to lower ROIs. Any reduction in our performance advertising efficiency could have an adverse effect on our business and results of operations, whether through reduced gross profit or gross profit growth or through advertising expenses increasing faster than gross profit and thereby reducing margins and earnings growth.

We believe that a number of factors could cause consumers to increase their shopping behavior before making a travel purchase. Increased shopping behavior reduces our performance advertising efficiency and effectiveness because traffic becomes less likely to result in a purchase on our website, and such traffic is more likely to be obtained through paid performance advertising channels than through free 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 advertising 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 gross profit or increase in advertising and other customer acquisition costs experienced by our OTC brands.

*Our business could be negatively affected by changes in Internet search engine 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 engines and meta-search websites to generate traffic to our websites, principally through pay-per-click advertising campaigns. The pricing and operating dynamics on these search engines 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. If Google changes how it presents travel search results or the manner in which it conducts the auction for placement among search results, in either case in a manner that is competitively disadvantageous to us, whether to support its own travel-related services (such as "Book on Google") or otherwise, our ability to efficiently generate traffic to our websites could be harmed, which in turn would have an adverse effect on our business, market share 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. Lastly, 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 engine ranking, due to changes in search engine algorithms or otherwise, our business, market share and results of operations could be negatively affected.

*Consumer adoption and use of mobile devices creates new 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 smart phones 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 to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. Our major competitors and certain new market entrants are offering mobile apps for travel products and other functionality, including proprietary last-minute discounts for accommodation reservations. Advertising and distribution opportunities may be more limited on mobile devices given their smaller screen sizes. The gross profit 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 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.

Apple, one of the most innovative and successful companies in the world and 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" (formerly known as "Passbook"), 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 smart phone 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. Similarly, Google's Android operating system is the leading smart phone 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. To the extent Apple or Google use their mobile operating systems or app distribution channels to favor their own travel service offerings, our business and results of operations could be harmed.

*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 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 customers. We have experienced targeted and organized phishing attacks and may experience more in the future. 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, including Sony, Home Depot, JPMorgan, Target, Zappos, Apple, AOL, LinkedIn, Google and Yahoo! experienced high-profile security breaches that exposed their customers' and/or employees' personal information. We expend significant resources to protect against security breaches, and we may need to 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 as the tools and techniques used in such attacks become more advanced. As experienced by Sony, 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 the value of our brand, our market share and our results of operations. Our insurance policies carry low coverage limits, and would likely not be adequate to reimburse us for 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 global distribution systems ("GDSs") upon which we rely. A security breach at any such third-party marketing affiliate, travel service provider, GDS or other third party on which we rely could be perceived by consumers as a security breach of our systems and in any event could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such third parties may not comply with applicable disclosure requirements, which could expose us to liability.

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, in April 2016 the European Union adopted a new General Data Protection Regulation designed to unify data protection within the European Union under a single law, which may result in significantly greater compliance burdens for companies with users and operations in the European Union. Under the General Data Protection Regulation, fines of up to 20,000,000 Euros or up to 4% of the annual global turnover of the infringer, whichever is greater, could be imposed. 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. The new General Data Protection Regulation is not expected to apply to us until May 2018. For several years, we participated in the U.S.-E.U. Safe Harbor Arrangement (the "Safe Harbor") to address the European Union's data transfer regulations that would otherwise restrict the transfer of certain data from the European Union to the United States. In October 2015, the European Court of Justice invalidated the Safe Harbor, and, as a result, we may need to pursue consent and/or other solutions with respect to certain data transfers from the European Union to the United States. Such consents and/or solutions could be time consuming, costly or complicated to obtain or implement, or we may not be successful in such efforts, any of which could adversely affect our operations and financial results. On February 2, 2016, European Union and U.S. authorities announced that they had reached agreement on a new data transfer framework, called the EU-U.S. Privacy Shield, which was formally adopted by the European Commission on July 12, 2016. The European Union and the U.S. will begin implementation of the new framework immediately, but it is expected to be subject to legal challenge. These laws and their interpretations continue to develop and may be inconsistent from jurisdiction to jurisdiction. Non-compliance with these laws could result in 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. 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, 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 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), SQL injection (where a third party attempts to obtain information or otherwise insert malicious code into our software through data entry fields in our websites) 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 our brand, 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 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 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.

*We may have exposure to additional tax liabilities.*

As an international business providing reservation and advertising 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, financial condition 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 several 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 recently concluded an audit that started in 2013 of the tax years 2003 through 2012. The French 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 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 intend to contest the assessments. If we are unable to resolve the matter with the French authorities, we would expect to challenge the assessments in the French courts. We may be required to pay, upfront, the full amount or a significant part of any such assessments, though any such payment would not constitute an admission by us that we owe the taxes. French authorities may decide to also audit subsequent tax years, which could result in additional assessments.

Italian tax authorities have initiated a process to determine whether we should be subject to additional tax obligations in Italy. Italian tax authorities may determine that we owe additional taxes, and may also assess penalties and interest. We believe that we have been, and continue to be, in compliance with Italian tax law. In general, governments in the United States and Europe are increasingly focused on ways to increase tax revenues, which has contributed to an increase in audit activity and harsher stances 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.

As of June 30, 2016, we held approximately $10.7 billion of cash, cash equivalents, short-term investments and long-term investments outside of the United States. We currently intend to use our cash held outside the United States to reinvest in our international operations. If that intention changes and we decide to repatriate that cash to the United States, whether due to cash needs in the United States or otherwise, we would incur related U.S. income tax expense, and we would only make income tax payments when we repatriate the cash. We would pay only U.S. federal alternative minimum tax and certain U.S. state income taxes as long as we have net operating loss carryforwards available to offset our U.S. taxable income. If our foreign earnings were repatriated, this could result in us being subject to a cash income tax liability on the earnings of our U.S. businesses sooner than would otherwise have been the case. After our net operating loss carryforwards have been fully utilized, foreign tax credits associated with the repatriation of international cash may be used to reduce U.S. federal taxes on the repatriation.

Various legislative proposals that would reform U.S. corporate income tax laws have been proposed by President Obama's administration as well as members of the U.S. Congress, including proposals that would significantly impact how U.S. multinational corporations are taxed on international earnings. Such proposals include changes that would reduce U.S. tax deferral on certain international digital goods and services transactions, impose a minimum U.S. tax on non-U.S. earnings, impose a one-time 14% tax on previously untaxed non-U.S. earnings, limit U.S. deductions for interest expense related to un-repatriated international-source income, limit interest and royalty deductions in connection with certain related party transactions, impose restrictions on the use of hybrid arrangements, limit shifting of income through intangible property transfers, and put in place certain tax disincentives for offshoring jobs or business segments. On April 4, 2016, the Treasury Department and IRS released proposed earnings stripping regulations regarding the treatment of certain related-party corporate interests as equity for U.S. federal income tax purposes. Although intended to discourage inversion transactions, these regulations include provisions that may be interpreted to impact other common tax structures including intercompany obligations and/or financing. The regulations, if finalized, could potentially have a significant impact on the treatment of intercompany debt issued among certain corporate groups, resulting in the treatment of certain debt instruments as equity for U.S. tax purposes. We cannot determine whether some or all of these or other proposals will be enacted into law or what, if any, changes may be made to such proposals prior to being enacted into law. If U.S. tax laws change in a manner that increases our tax obligations, our financial position and results of operations could be adversely impacted.

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 may 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 also contemplate the development of a multilateral instrument to incorporate and facilitate changes to tax treaties. 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 on July 12, 2016. 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. We expect many countries to change their tax laws in response to these developments, and several countries have already changed or proposed changes to their tax laws in response to the final BEPS reports and/or the developments in the European Union. 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 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 financial position 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, in the United States and various international jurisdictions, as well as the potential for travel transaction taxes in the United States as discussed below and in Note 11 to our Unaudited Consolidated Financial Statements. For example, in July 2012 and December 2013, the Dutch Government enacted certain amendments to Dutch tax law including one-time levies on an employer applied to employee earnings, equal to 16% of an employee's earnings in excess of 150,000 Euros. These irrevocable levies resulted in additional payroll taxes of approximately $12 million (approximately $9 million after tax) in the fourth quarter of 2013 and approximately $14 million (approximately $10 million after tax) principally recorded in the third quarter of 2012. From time to time, we are under audit by tax authorities with respect 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 5% ("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, 2015, the Innovation Box Tax benefit reduced our consolidated income tax expense by approximately $260 million.

In order to be eligible for Innovation Box Tax treatment, Booking.com must, among other things, apply for and obtain a research and development ("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.

In addition, tax laws may change resulting in a reduction or elimination of the tax benefit. As discussed above, the OECD's action plan involves, in part, evaluation of preferential tax regimes such as the Innovation Box Tax. The European Union Council of Economics and Finance Ministers ("ECOFIN") has endorsed changes to limit member states' existing innovation and patent box tax regimes providing benefits related to profits derived from intangible assets such as intellectual property. The OECD's October 2015 final reports recommend that intellectual property qualifying for such tax regimes generally be limited to patents and other intellectual property assets that are functionally equivalent to patents (such as copyrighted software) if those other assets are both legally protected and subject to similar approval and registration processes as apply to patents. ECOFIN has endorsed the OECD's modified nexus approach and the European Union Code of Conduct Group will monitor legislative processes in 2016 necessary for European Union member states to change their existing "IP box" regimes to conform to the modified nexus approach, which requires full implementation in member states no later than July 2021. On May 19, 2016, the Dutch government launched a public Internet consultation process on proposed legislative changes to the Dutch Innovation Box Tax regime. The proposed changes are based on the above-mentioned recommendations made in the OECD's final BEPS report and recent evaluations on the working of the Dutch Innovation Box Tax. We expect that the final legislative changes will be introduced in the Dutch Parliament in September 2016. The new innovation box rules are planned to take effect on January 1, 2017, though we expect these legislative changes to include transition rules. To the extent Booking.com's intellectual property developed by its innovative activities do not meet the requirements under any new legislation, Booking.com would eventually lose all or a portion of the benefit of the Innovation Box Tax.

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 (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.

*Our financial results will likely be materially impacted by payment of income taxes in the future.*

Until our U.S. net operating loss carryforwards are utilized or expire, we do not expect to make tax payments on most of our U.S. income, except for U.S. federal alternative minimum tax and state income taxes. However, we expect to pay international taxes on our international income other than in countries where we have net operating loss carryforwards. We expect that our international business will continue to generate most of our revenues and profits and will continue to grow pretax income at a higher rate than our U.S. business and, therefore, we expect that our tax payments will continue to increase. Any increase in our effective tax rate would have an adverse effect on our results of operations.

*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 gross profit, 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 believe 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 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. During the course of our business, we are in continuous 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. 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.

Further, 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. Our continued ability to compete effectively 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 and competition 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 predominately 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.

In Europe, 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. In October 2015, the Irish NCA closed its investigation on the basis of commitments by Booking.com identical to those given to the French, Italian and Swedish NCAs. In November 2015 the Swiss NCA closed its investigation, prohibiting any reintroduction of Booking.com's old "wide" parity agreements but permitting Booking.com to retain its existing "narrow" parity agreements with accommodations in Switzerland. The Austrian NCA stated in March 2016 that it will close its investigation against Booking.com in light of the move to "narrow" price parity. 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 recently resolved the concerns of the Australia NCA based on implementation of the "narrow" price parity clause in Australia. 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. Booking.com filed an application to the Dusseldorf Court requesting the Court to order the suspension of the effects of the prohibition decision for the duration of the appeal. This application was rejected by the Dusseldorf Court on May 9, 2016; however, this outcome does not affect Booking.com's main appeal against 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) has been established by the European Commission to monitor the effects of the narrow price parity clause in Europe. The working group will issue questionnaires to market players, including Booking.com and Expedia, about the narrow price parity clause, and is expected to report its results by the end of the year.

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 working group's findings. 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.

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 was approved by the Italian Senate in June 2016 and is expected to be passed by the Italian Parliament during summer 2016 and become effective in September 2016. Similar legislation has been proposed in Austria. It is not yet clear how the Macron Law, the Italian law or the proposed Austrian legislation may affect our business in the long term in France, Italy and Austria, respectively.

Further, the European Commission published a communication on online platforms and the digital single market in May 2016 in which it stated that it will engage in targeted fact-finding to investigate concerns raised in a recent public consultation regarding potential unfair terms imposed by online platforms, including price parity clauses. The European Commission plans to report on its findings in Spring 2017. We are unable to predict what, if any, effect this inquiry 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 law 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.

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, laws and proposed legislation relating to data localization in some countries could 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.

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;

- our ability to repatriate funds held by our international subsidiaries to the United States at favorable tax rates;
- 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 audits by tax authorities in various jurisdictions.

*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 loss of, the 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. If we are unable to generate sufficient cash flow from our U.S. operations in the future to service our debt, we may be required to, among other things, repatriate funds to the United States at substantial tax cost.

*"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.

The European Union's ePrivacy Directive requires member countries to adopt regulations governing the use of "cookies" by websites servicing consumers in the European Union. For example, on June 5, 2012, an amendment to the Dutch Telecommunications Act became effective. The amended act requires websites, including Booking.com, to provide Dutch users with clear and comprehensive information about the storage and use of certain cookies and obtain prior consent from the user before placing certain cookies on a user's web browser. 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. As a result, these regulations could have a material adverse effect on our business, market share and results of operations.

*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;
- 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;
- announcements by third parties of significant claims or initiation of litigation proceedings against us or adverse developments in pending proceedings;
- occurrences of a significant security breach;
- 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" or the recent 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 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 smart phones and tablets for mobile e-commerce transactions, including through the increasing use of mobile apps. As a result, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to continually innovate and improve the performance, features and reliability of our services in response to competitive service offerings and the evolving demands of the marketplace. In particular, we believe that it is increasingly important for us to effectively offer our services through mobile apps and mobile optimized websites on smart phones and tablets. Any failure by us to successfully develop and achieve customer adoption of our mobile apps and mobile optimized websites would likely 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 increasingly will be 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.

In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes 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. For example, KAYAK generates revenues, in part, by allowing consumers to compare search results that appear in additional "pop-under" windows. Changes in browser functionality, such as changes that either block or otherwise limit the use of "pop-under" windows, at times have had a negative impact on our revenues. 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.

*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 multiple 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. 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, including our issued patents and pending patent applications, help to protect our business. However, we may not be able to successfully defend our intellectual property rights or they may not be sufficient to effectively protect our business.

If we are not successful in protecting our intellectual property or if our intellectual property is ineffective in protecting our business, our business, brands and results of operations could be materially adversely affected.

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. For example, in February 2015, IBM sued us and certain of our subsidiaries asserting that we infringed certain

IBM patents and claiming damages and injunctive relief. While we believe the suit to be without merit and intend to contest it, litigation is uncertain and we may not be successful. 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. 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 will benefit from the addition of OpenTable to The Priceline Group. 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.

We have invested since the acquisition and intend to continue to invest in OpenTable to accelerate its global expansion, increase the value offered to its restaurant partners and enhance the end-to-end experience for consumers across desktop and mobile devices. As expected, these investments resulted in lower OpenTable post-acquisition EBITDA compared to pre-acquisition levels. However, the time required to execute these investments has exceeded our initial expectations. Despite the delays, we continue to believe that these investments will result in significant future earnings. Future events and changing market conditions may, however, lead us to reevaluate the assumptions we have used to test for goodwill impairment, including key assumptions regarding OpenTable's expected growth rates and operating margins, as well as other key assumptions with respect to matters outside of our control, such as discount rates, currency exchange rates and market EBITDA comparables. We expect OpenTable to complete the technology platform development efforts necessary to enable its global expansion by the end of 2016. As these development efforts are completed and OpenTable's global expansion activities increase, we will refine our forecast accordingly. If OpenTable’s investments, in particular its investments in its global expansion efforts, are not successful, there is a substantial likelihood that we would recognize a related goodwill impairment, 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 predominantly classified as available-for-sale and, consequently, are recorded in our Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income, 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 4 to our Unaudited Consolidated Balance Sheets for more information regarding our investments in Ctrip securities. 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.

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, during the first quarter of 2016, we recognized an other-than-temporary impairment of approximately $50 million related to our cost-method investment in Hotel Urbano, and in the second quarter of 2016, after discussions with Hotel Urbano's management, we recognized a further impairment of approximately $10 million to write-off the remainder of our investment in Hotel Urbano. In addition, during the second quarter of 2016 we recognized an impairment of approximately $3 million for an investment in another private company. See Note 4 to the Unaudited Consolidated Financial Statements.

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.*

We have invested, and in the future may invest, in new business strategies and acquisitions. 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, and unidentified issues not discovered in our investigations and evaluations of those strategies and 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. Further, we may issue shares of our common stock in these transactions, which could result in dilution to our stockholders.

*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 transactions.*

Our results have been negatively impacted by purchases made using fraudulent credit cards. Because we facilitate the processing of customer credit cards in many of our transactions, including a majority of our priceline.com, agoda.com and Rentalcars.com transactions, 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 credit card 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.

In addition, in the event that one of our major travel service providers voluntarily or involuntarily declares bankruptcy, we could experience an increase in credit card 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 *Name Your Own Price*® and *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 credit card chargebacks from customers with tickets on airlines that ceased operations. We process credit card transactions and operate in numerous currencies. Credit card costs are typically higher for foreign currency transactions and in instances where cancellations occur.

**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, 2016.

**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, 2016 – | — | (1) | $ — | — | $ 2,857,836,564 | (1) |
| April 30, 2016 | 1,258 | (2) | $ 1,307.52 | N/A | N/A | (2) |
| May 1, 2016 – | 115,109 | (1) | $ 1,262.57 | 115,109 | $ 2,712,503,229 | (1) |
| May 31, 2016 | 15,002 | (2) | $ 1,322.93 | N/A | N/A | (2) |
| June 1, 2016 – | 91,662 | (1) | $ 1,258.52 | 91,662 | $ 2,597,144,748 | (1) |
| June 30, 2016 | 12,848 | (2) | $ 1,332.73 | N/A | N/A | (2) |
| Total | 235,879 | | $ — | 206,771 | $ 2,597,144,748 | |

______________________________

(1) Pursuant to a stock repurchase program announced on February 17, 2016, whereby the Company was authorized to repurchase up to $3,000,000,000 of its common stock.

(2) 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.

**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(b) | Amended and Restated By-Laws, dated July 23, 2015. |
| 4.1(c) | Form of 3.600% Senior Note due 2026. |
| 4.2(c) | Officers' Certificate, dated May 23, 2016, with respect to the 3.600% Senior Notes due 2026. |
| 10.1(d) | Separation Letter, dated April 27, 2016, between Darren R. Huston and The Priceline Group. |
| 10.2(e) | Employment Letter Agreement with Jeffery H. Boyd dated May 19, 2016. |
| 10.3(e) | Amended and Restated Employment Agreement with Gillian Tans dated May 19, 2016. |
| 12.1 | Statement of Ratio of Earnings to Fixed Charges. |
| 31.1 | Certification of Jeffery H. Boyd, the Interim Chief Executive Officer and President, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Daniel J. Finnegan, the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Jeffery H. Boyd, the Interim Chief Executive Officer and President, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Daniel J. Finnegan, the 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, 2016 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements. |

(a) Previously filed as an exhibit to our Current Report on Form 8-K filed on July 18, 2014 and incorporated herein by reference.
(b) Previously filed as an exhibit to our Current Report on Form 8-K filed on July 28, 2015 and incorporated herein by reference.
(c) Previously filed as an exhibit to our Current Report on Form 8-K filed on May 23, 2016 and incorporated herein by reference.
(d) Previously filed as an exhibit to our Current Report on Form 8-K filed on April 28, 2016 and incorporated herein by reference.
(e) Previously filed as an exhibit to our Current Report on Form 8-K filed on May 20, 2016 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.

THE PRICELINE GROUP INC.
(Registrant)

Date: August 4, 2016

By: /s/ Daniel J. Finnegan

Name: Daniel J. Finnegan
Title: Chief Financial Officer
(On behalf of the Registrant and as principal financial officer)

**Exhibit Index**

| Exhibit Number | Description |
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**Exhibit 12.1**

**The Priceline Group Inc.**
**Ratio of Earnings to Fixed Charges**
**(In thousands, except ratio data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Earnings Computation:** | | | | |
| Earnings before income taxes | $ 692,548 | $ 648,377 | $ 1,153,041 | $ 1,055,620 |
| Fixed charges | 59,227 | 48,868 | 114,527 | 89,085 |
| Total earnings as adjusted | $ 751,775 | $ 697,245 | $ 1,267,568 | $ 1,144,705 |
| | | | | |
| **Fixed Charges Computation:** | | | | |
| Interest Expense | $ 50,290 | $ 41,547 | $ 97,184 | $ 75,026 |
| Assumed interest element included in rent expense | 8,937 | 7,321 | 17,343 | 14,059 |
| Total fixed charges | $ 59,227 | $ 48,868 | $ 114,527 | $ 89,085 |
| | | | | |
| Ratio of earnings to fixed charges | 12.7 | 14.3 | 11.1 | 12.8 |

**Exhibit 31.1**

**CERTIFICATION**

I, Jeffery H. Boyd, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of The Priceline Group 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 4, 2016 | | /s/ Jeffery H. Boyd |
| | Name: | Jeffery H. Boyd |
| | Title: | Interim Chief Executive Officer and President |

**Exhibit 31.2**

**CERTIFICATION**

I, Daniel J. Finnegan, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of The Priceline Group 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 4, 2016

/s/ Daniel J. Finnegan

Name: Daniel J. Finnegan
Title: 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 The Priceline Group 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, 2016 (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 4, 2016

/s/ Jeffery H. Boyd
Name: Jeffery H. Boyd
Title: Interim Chief Executive Officer and President

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 The Priceline Group 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, 2016 (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 4, 2016 | | /s/ Daniel J. Finnegan |
| | Name: | Daniel J. Finnegan |
| | Title: | 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.