PRICELINE COM INC
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

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 0-25581

PRICELINE.COM INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware	06-152849
(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 X . NO .

Number of shares of Common Stock outstanding at April 30, 2002:

Common Stock, par value $0.008 per share	229,603,320

(Class)	(Number of Shares)

priceline.com Incorporated
Form 10-Q

For the Quarter Ended March 31, 2002

PART I - FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PRICELINE.COM INCORPORATED
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

Current assets:	
Cash and cash equivalents	
Restricted cash	
Short-term investments	
Accounts receivable, net of allowance for doubtful accounts of $2,581 and $4,170	
Prepaid expenses and other current assets	
Total current assets	
Property and equipment, net	
Goodwill	
Other assets, primarily related parties	
Total assets	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	
Accrued expenses	
Other current liabilities	
Total current liabilities	
Accrued expenses	
Total liabilities	
SERIES B Mandatorily redeemable Preferred Stock, $0.01 par value; 80,000 authorized shares; $1,000 liquidation value per share; 80,000 shares issued; 13,469 and 25,345 shares outstanding, respectively	
Stockholders' equity:	
Common stock, $0.008 par value, authorized 1,000,000,000 shares; issued 234,994,472 and 229,487,885 shares issued, respectively	
Treasury stock, 5,450,236 shares	
Additional paid-in capital	
Accumulated deficit	
Total stockholders' equity	
Total liabilities and stockholders' equity	

See notes to consolidated financial statements.

PRICELINE.COM INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS 2002
Travel revenues	$ 259,899
Other revenues	1,986
Total revenues	261,885
Cost of travel revenues	219,511
Cost of other revenues	381
Total costs of revenues	219,892
Gross profit	41,993
Operating expenses:	
Sales and marketing	20,791
General and administrative	6,636
Payroll tax on employee stock options	104
Stock based compensation	250
Systems and business development	10,533
Restructuring charge	(824)
Total operating expenses	37,490
Operating income (loss)	4,503
Other income (expenses):	
Loss on sale of equity investment	--
Interest income	782
Equity in net income of pricelinemortgage	492
Other	(36)
Total other income	1,238
Net income (loss)	5,741
Preferred stock dividend	(1,854)
Net income (loss) applicable to common stockholders	$ 3,887
Net income (loss) applicable to common stockholders per basic common share	$ 0.02
Weighted average number of basic common shares outstanding	227,503
Net income applicable to common stockholders per	

diluted common share	$ 0.02
Weighted average number of diluted common shares outstanding	239,970

See notes to consolidated financial statements.

PRICELINE.COM INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2002
(UNAUDITED)
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	TREAS
	SHARES	AMOUNT	CAPITAL	DEFICIT	SHARES
Balance, January 1, 2002	229,488	$1,836	$2,015,849	$(1,544,341)	(5,450)
Net income applicable to common stockholders	--	--	--	3,887	--
Issuance of common stock	184	1	749	--	--
Issuance of preferred stock dividend	454	4	1,850	--	--
Exercise of options and warrants ...	4,868	39	14,098	--	--
Balance, March 31, 2002	234,994	$1,880	$2,032,546	$(1,540,454)	(5,450)

See accompanying notes to consolidated financial statements.

PRICELINE.COM INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
OPERATING ACTIVITIES:		

Net income (loss)	$ 5,741	$(13,774)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,459	4,099
Provision for uncollectible accounts	(64)	1,875
Net loss on sale of equity investments	--	946
Acceleration of stock options	--	61
Amortization of deferred compensation	--	4,848
Equity in net income of pricelinemortgage	(492)	--
Changes in assets and liabilities:		
Accounts receivable	(4,489)	(8,372)
Prepaid expenses and other current assets	(1,324)	603
Accounts payable and accrued expenses	8,558	3,327
Other	1,686	130
Net cash provided by (used in) operating activities	14,075	(6,257)
INVESTING ACTIVITIES:		
Additions to property and equipment	(3,150)	(2,816)
Proceeds from sale/maturity of investments	--	770
Investment in short-term investments/marketable securities	(19,058)	(16,003)
Funding of restricted cash and bank certificates of deposits	(2,058)	(3,946)
Net cash used in investing activities	(24,266)	(21,995)
FINANCING ACTIVITIES:		
Proceeds from sale of common stock, net	--	49,471
Proceeds from exercise of stock options and warrants	2,263	455
Net cash provided by financing activities	2,263	49,926
Effect of foreign exchange rates changes on cash and cash equivalents	36	--
Net (decrease) increase in cash and cash equivalents	(7,892)	21,674
Cash and cash equivalents, beginning of period	99,943	77,024
Cash and cash equivalents, end of period	$ 92,051	$ 98,698

See notes to consolidated financial statements.

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PRICELINE.COM INCORPORATED
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Company is responsible for the unaudited condensed consolidated financial statements included in this document. The financial statements have been prepared in accordance with generally accepted accounting principles ("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 condensed 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. As these are condensed financials, one should also read the financial statements in the Company's December 31, 2001, Form 10-K.

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.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year presentation.

2. NET INCOME (LOSS) PER SHARE

The Company computes basic and diluted earnings per share in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share". SFAS 128 requires the Company to report both basic earnings per share, which is based on the weighted average number of common shares outstanding, and diluted earnings per share, which is based on the weighted average number of common shares outstanding and all dilutive potential common shares outstanding. For the three months ended March 31, 2002, for the purpose of calculating earnings per share - basic, the weighted average number of common shares outstanding was 227,503,011 and for the purpose of calculating earnings per share - diluted, the weighted average number of common shares outstanding was 239,969,718, which includes 12,466,707 shares representing the dilutive effect of common stock equivalents. Since the Company incurred a loss applicable to common shareholders for the period ended March 31, 2001, the inclusion of options and warrants in the calculation of weighted average common shares is anti-dilutive and therefore, there is no difference between basic and diluted earnings per share for that period.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," which eliminated the pooling method of accounting for all business combinations initiated after June 30, 2001 and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The Company adopted this accounting standard for business combinations initiated after June 30,2001.

In June 2001, FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill be separately disclosed from other intangible assets in the statement of financial position, and no longer be amortized but tested for impairment at least annually. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company adopted the provisions of SFAS 142 effective January 1, 2002, and as a result, will not record goodwill amortization. As the acquisition of the Company's majority interest in priceline.com europe Ltd. occurred after June 30, 2001, the Company had no goodwill amortization for the year ended December 31, 2001. The Company is currently in the process of completing the first step of the initial goodwill impairment test required by SFAS 142 and will complete this assessment in the second quarter of 2002.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting

and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This Statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This Statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This Statement also broadens the presentation of discontinued operations to include more disposal transactions. The Company adopted the provisions of SFAS 144 effective January 1, 2002 and it had no impact on the consolidated financial statements.

4. RESTRUCTURING AND SPECIAL CHARGES

During the first quarter of 2002, the Company decreased the liability for the 2000 restructuring charge by approximately $824,000. The reduction resulted from the subleasing of office space vacated in the fourth quarter of 2000 under more favorable terms than originally estimated. The reduction was reflected in the restructuring line of the statement of operations.

In 2000, the Company recorded restructuring charges of approximately $32.0 million and a special charge of approximately $34.8 million. The restructuring charge resulted from the Company's review of its operations with the intention of increasing efficiencies and refocusing its business principally on its core travel products. As a result of this review, the Company primarily decided to reduce its work force, consolidate its real estate and rationalize certain international markets and potential product line offerings.

	RESTRUCTURING	SPECIAL	TOTAL
Accrued at December 31, 2001	$ 5,666	$ 2,474	$ 8,140
Adjustments	--		
	(824)		(824)
Disbursed during 2002	(577)	(353)	(930)
Accrued at March 31, 2002 ..	$ 4,265	$ 2,121	$ 6,386
At March 31, 2002:			
Current portion	$ 1,900	$ 2,121	$ 4,021
Long-term portion	2,365		2,365

5. ACQUISITIONS

On December 21, 2001, the Company completed the acquisition of approximately 62% of the issued and outstanding shares of priceline.com Europe Holdings, N.V., the parent company of priceline.com europe Ltd. (together with priceline.com Europe Holdings, N.V., "priceline.com europe") for approximately $24 million, including transaction costs, which was accounted for as a purchase. Priceline.com europe holds the license to the Company's business model in Europe. Prior to the acquisition of priceline.com europe, General Atlantic Partners, LLC and its affiliated entities ("GAP") owned approximately 86%. At the time of the acquisition, GAP owned approximately 5.9 million shares of priceline.com Incorporated common stock according to documents publicly filed with the Securities and Exchange Commission. During the three months ended March 31, 2001, the Company charged priceline.com europe licensing fees and reimbursable expenses of approximately $225,000 and $833,000, respectively. On a consolidated basis, there were no such fees in the first quarter 2002.

William Ford, a principal of GAP, is a member of the Company's Board of Directors and chairman of the Company's audit committee. Certain investors in priceline.com Europe Holdings, N.V., including certain affiliates of General Atlantic Partners, LLC, have the right to put their shares of priceline.com Europe Holdings, N.V. to priceline.com Incorporated, at fair market value, in the event of a change in control, as defined, of priceline.com Incorporated. These investors own 45,539,999 shares of priceline.com Europe Holdings, N.V.

The excess of the cost of the acquisition over the fair value of the net assets acquired was recorded as goodwill. The assets and liabilities were recorded at their estimated fair values as of the acquisition date. Amounts and allocations of costs recorded may require adjustment based upon information coming to the Company's attention that is not currently available. The Company expects in the near term that priceline.com europe will incur operating losses and since the other stockholders of priceline.com europe have no commitment to provide financing, the Company will recognize the entire loss in its consolidated financial statements subsequent to the acquisition.

On January 31, 2002, the Company invested an additional $10 million in priceline.com Europe Holdings, N.V., which increased the Company's equity interest in priceline.com europe to approximately 74.6% of the issued and outstanding shares.

6. OTHER ASSETS

Other assets at March 31, 2002 and December 31, 2001 consist of the following (in thousands):

	MARCH 31, 2002	DEC
Convertible loans and other advances - Hutchison-Priceline Limited....................................	$11,110	
Convertible loans - MyPrice................................	1,840	
Investment in pricelinemortgage/convertible loan............	5,616	
Other..	1,154	
Total	$19,720	

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Convertible loans and other advances-Hutchison Priceline Limited represents a convertible note from the Company's Asian licensee, Hutchison Priceline Limited. Included in the prepaid expenses and other current assets balance is a receivable from the Company's Asian license of approximately $915,000. During the periods ended March 31, 2002 and 2001, the Company charged Hutchison Priceline Limited $125,000 in licensing fees per period, and approximately $92,000 and $79,000, respectively, in reimbursable expenses, in accordance with the Company's agreements. Convertible loans-Myprice represents the estimated net realizable value of the amounts due to the Company from its Australian licensee. Pricelinemortgage represents the Company's 49% equity investment in pricelinemortgage. In September 2001, the Company converted a debt instrument into a 49% equity interest in pricelinemortgage and, accordingly, has recognized its pro rata share of pricelinemortgage's net income. At March 31, 2002, the investment in pricelinemortgage consists of the Company's original investment of $4.6 million and the Company's cumulative share of pricelinemortgage's earnings of approximately $1 million. Robert J. Mylod Jr., the Company's Chief Financial Officer, is a director of, and an investor in, Alliance Capital Partners Inc., the parent company of Alliance

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Partners. In 1997, Mr. Mylod invested $50,000 in Alliance Capital Partners Inc. and his investment represents less than 1/10th of one percent of Alliance's outstanding common stock.

7. DELTA AIR LINES

During the first quarter 2001, Delta and the Company agreed to restructure Delta's investment in the Company. Delta exchanged 6,000,000 shares of Series A Convertible Redeemable PIK Preferred Stock for 80,000 shares of a newly created Series B Redeemable Preferred Stock ("Series B Preferred Stock") and warrants (the "Warrants") to purchase approximately 27 million shares of the Company's common stock at an exercise price of $2.97 per share.

Pursuant to the terms of the certificate of designations relating to the Series B Preferred Stock, the Series B Preferred Stock bears a dividend that is payable through the issuance of approximately 3.0 million shares of the Company's common stock each year, subject to adjustment as provided for in the certificate of designations. The Series B Preferred Stock has a liquidation preference of $1,000 per share and is subject to mandatory redemption on February 6, 2007 or is subject to redemption at the option of Delta or the Company prior to February 6, 2007. In the event the Company consummates any of certain business combination transactions, the Series B Preferred Stock may be redeemed at the option of the Company or Delta at the liquidation preference per outstanding share plus all dividends accrued but not paid on the shares. In such an event, Delta would also be entitled to receive an amount equal to the sum of the dividend payments that would have accrued or cumulated on the shares to be redeemed through the remaining scheduled dividend payment dates and, in the event that any of the business combination transactions occurs before November 16, 2002, a premium payment of $625 per share.

The Warrants provide that at any time the closing sales price of the Company's Common Stock has exceeded $8.90625 (subject to adjustment) for 20 consecutive trading days, the Warrants will automatically be exercised. The exercise price of the Warrant is paid by surrendering .00296875 shares of Series B Preferred Stock for each share of Common Stock purchased. As of March 31, 2002, there were 4,537,199 Warrants outstanding.

During 2001, Delta exercised Warrants to purchase approximately 18.4 million shares of the Company's common stock and on January 29, 2002, Delta exercised Warrants to purchase 4 million shares of the Company's common stock. As a result, there are 13,469 shares of Series B Preferred Stock outstanding with an aggregate liquidation preference of approximately $13.5 million and the Company's future semi-annual dividend has been reduced to approximately 242,000 shares of Common Stock. In accordance with the terms of the Series B Preferred Stock, the Company delivered 986,491 shares of the Company's common stock to Delta on August 6, 2001 and 454,308 shares of Common Stock on February 6, 2002, as dividend payments and, as a result, the Company recorded a non-cash dividend of $8.6 million in the third quarter of 2001 and a non-cash dividend of $1.85 million in the first quarter of 2002.

8. COMMITMENTS AND CONTINGENCIES

On January 6, 1999, the Company received notice that a third party patent applicant and patent attorney, Thomas G. Woolston, purportedly had filed in December 1998 with the United States Patent and Trademark Office a request to declare an interference between a patent application filed by Woolston and the Company's U.S. Patent 5,794,207. The Company is currently awaiting information from the Patent Office regarding whether it will initiate an interference proceeding.

On January 19, 1999, Marketel International Inc. ("Marketel"), a California corporation, filed a lawsuit against priceline.com, among others, alleging causes of action for misappropriation of trade secrets, conversion, false advertising and for correction of inventorship of U.S. Patent 5,794,207.

On December 5, 2000, the United States District Court for the Northern District of California granted priceline.com's motion for summary judgment with respect to Marketel's theft of trade secret and patent inventorship claims, and ruled that there were triable issues of fact as to Marketel's false advertising claims, although Judge Legge volunteered that it was unlikely that Marketel could establish damages and suggested that these claims should be voluntarily dismissed. The false advertising claims were subsequently dismissed by stipulation, and on February 1,

2001, Judge Legge clarified his inventorship ruling in favor of priceline.com and entered final judgment in favor of priceline.com. On April 25, 2002, the Federal Circuit affirmed the judgment in favor of priceline.com in all respects. On May 9, 2002, Marketel filed a petition for panel rehearing with the Federal Circuit, claiming error in the decision affirming the District Court's judgment. Because petitions for panel rehearing are infrequently granted, priceline.com may not file an answer to Marketel's petition unless the court directs it to do so. Pursuant to an indemnification agreement, Walker Digital has agreed to indemnify, defend and hold priceline.com harmless for legal expenses incurred in the future in connection with the Marketel litigation.

Subsequent to the Company's announcement on September 27, 2000 that revenues for the third quarter 2000 would not meet expectations, it was served with the following putative class action complaints:

- o Weingarten v. priceline.com Incorporated and Jay S. Walker 3:00 CV 1901 (District of Connecticut).
- o Twardy v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker

3:00 CV 1884 (District of Connecticut).

- Berdakina v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1902 (District of Connecticut).
- Mazzo v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1924 (District of Connecticut).
- Fialkov v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1954 (District of Connecticut).
- Licht v. priceline.com Incorporated and Jay S. Walker 3:00 CV 2049 (District of Connecticut).
- Ayach v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2062 (District of Connecticut).
- Zia v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1968 (District of Connecticut).
- Mazzo v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1980 (District of Connecticut).
- Bazag v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2122 (District of Connecticut).
- Breier v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2146 (District of Connecticut).
- Farzam et al. v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2176 (District of Connecticut).
- Caswell v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2169 (District of Connecticut).
- Howard Gunty Profit Sharing Plan v. priceline.com Inc. Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1917 (District of Connecticut).

- Cerelli v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1918 (District of Connecticut)
- Mayer v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1923 (District of Connecticut)
- Anish v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1948 (District of Connecticut)
- Atkin v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 1994 (District of Connecticut).
- Lyon v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2066 (District of Connecticut).
- Kwan v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2069 (District of Connecticut).
- Krim v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2083 (District of Connecticut).

- o Karas v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2232 (District of Connecticut).
- o Michols v. priceline.com Inc., Richard S. Braddock, Daniel H. Schulman and Jay S. Walker 3:00 CV 2280 (District of Connecticut).

All of these cases have been transferred to Judge Dominick J. Squatrito. On September 12, 2001, Judge Squatrito Ordered that these cases be consolidated under the Master File No. 3:00cv1884 (DJS), and he designated lead plaintiffs and lead plaintiffs' counsel. On October 29, 2001, plaintiffs served a Consolidated Amended Complaint. On February 5, 2002, Amerindo Investment Advisors, Inc., who is one of the lead plaintiffs in the consolidated action, made a motion for leave to withdraw as lead plaintiff in this action. The court has yet to rule on that motion. On February 28, 2002, the Company filed a motion to dismiss the Consolidated Amended Complaint. Plaintiffs have until May 28, 2002 to file papers in opposition to that motion. The Company intends to defend vigorously against this action.

In addition, the Company has been served with a complaint that purports to be a shareholder derivative action against its Board of Directors and certain of its current executive officers, as well as priceline.com (as a nominal defendant). The complaint alleges breach of fiduciary duty and waste of corporate assets. The action is captioned Mark Zimmerman v. Richard Braddock, J. Walker, D. Schulman, P. Allaire, R. Bahna, P. Blackney, W. Ford, M. Loeb, N. Nicholas, N. Peretsman, and priceline.com Incorporated 18473-NC (Court of Chancery of Delaware, County of New Castle, State of Delaware). On February 6, 2001, all defendants moved to dismiss the complaint for failure to make a demand upon the Board of Directors and failure to state a cause of action upon which relief can be granted. Pursuant to a stipulation by the parties, an amended complaint was filed on June 21, 2001. Defendants renewed their motion to dismiss on August 20, 2001, and plaintiff served his opposition to that motion on October 26, 2001. Defendants filed their reply brief on January 7, 2002. Oral argument on that motion was conducted on April 23, 2002, and decision was reserved. The Company intends to defend vigorously against this action.

On March 16, March 26, April 27, and June 5, 2001, respectively, four putative class action complaints were filed in the U.S. District Court for the Southern District of New York naming priceline.com, Inc., Richard S. Braddock, Jay Walker, Paul Francis, Morgan Stanley Dean Witter & Co., Merrill Lynch, Pierce, Fenner & Smith, Inc., BancBoston Robertson Stephens, Inc. and Salomon Smith Barney, Inc. as defendants (01 Civ. 2261, 01 Civ. 2576, 01 Civ. 3590 and 01 Civ. 4956). Shives et al. v. Bank of America Securities LLC et al., 01 Civ. 4956, also names other defendants and states claims unrelated to the Company. The complaints allege, among other things, that

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priceline.com and the individual defendants named in the complaints violated the federal securities laws by issuing and selling priceline.com common stock in priceline.com's March 1999 initial public offering without disclosing to investors that some of the underwriters in the offering, including the lead underwriters, had allegedly solicited and received excessive and undisclosed commissions from certain investors. By Orders of Judge Mukasey and Judge Scheindlin dated August 8, 2001, these cases were consolidated for pre-trial purposes with hundreds of other cases, which contain allegations concerning the allocation of shares in the initial public offerings of companies other than priceline.com, Inc. By Order of Judge Scheindlin dated August 14, 2001, the following cases were consolidated for all purposes: 01 Civ. 2261; 01 Civ. 2576; and 01 Civ. 3590. On April 19, 2002, plaintiffs filed a Consolidated Amended

Class Action Complaint in these cases. This Consolidated Amended Class Action Complaint makes similar allegations described to those above but with respect to both our March 1999 initial public offering and our August 1999 second public offering of common stock. The named defendants are priceline.com, Inc., Richard S. Braddock, Jay S. Walker, Paul E. Francis, Nancy B. Peretsman, Timothy G. Brier, Morgan Stanley Dean Witter & Co., Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith, Inc., Robertson Stephens, Inc. (as successor-in-interest to BancBoston), Credit Suisse First Boston Corp. (as successor-in-interest to Donaldson Lufkin & Jenrette Securities Corp.), Allen & Co., Inc. and Salomon Smith Barney, Inc. Priceline has not responded to the Consolidated Amended Complaint and the time within which to do so has not yet expired. The Company intends to defend vigorously against these actions.

The Company has been informed that a sub-committee of the board of directors of Myprice pty. Ltd. has been formed to evaluate whether a lawsuit should be instituted against is in connection with its investment in Myprice. If necessary, the Company will defend against any such suit vigorously.

In January 2002, the Company received a letter from the Teradata Division of NCR Corporation alleging that the Company infringed U.S. Patents 5,699,526, 5,721,906, 5,832,496, 5,951,643, 5,954,798, 5,991,791, 6,026,403, 6,085,223, 6,151,601, 6,169,997, and 6,253,203. Based on advice from its patent counsel, the Company does not believe that it infringes any of the patents at issue. If necessary, the Company will defend vigorously against any suit arising from NCR's claims.

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 by it. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources and could adversely affect the Company's results of operations and business.

9. TAXES

For the three months ended March 31, 2002, the Company has recorded no provision for income taxes due to the availability of fully reserved net operating losses which have been utilized to offset the income tax provision.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS, INCLUDING THE NOTES TO THOSE STATEMENTS, INCLUDED ELSEWHERE IN THIS FORM 10-Q, AND THE SECTION ENTITLED "SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS" IN THIS FORM 10-Q. 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, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "FACTORS THAT MAY AFFECT FUTURE RESULTS."

OVERVIEW

We have pioneered a unique e-commerce pricing system known as a "demand collection system" that enables consumers to use the Internet to save money on products and services while enabling sellers to generate incremental revenue. Using a simple and compelling consumer proposition - Name Your Own Price(SM) - we collect consumer demand, in the form of individual customer offers, for a particular product or service at a price set by the customer. We then access databases or, in some instances, communicate that demand to participating sellers to determine whether we can fulfill the customer's offer. For most of these transactions, we establish the price we will accept, have total discretion in supplier selection, purchase and take title to the particular product and are the merchant of record. Consumers agree to hold their offers open for a specified period of time and, once fulfilled, offers generally cannot be canceled. We benefit consumers by enabling them to save money, while at the same time benefiting sellers by providing them with an effective revenue management tool capable of identifying and capturing incremental revenues. By requiring consumers to be flexible with respect to brands, sellers and product features, we enable sellers to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures.

Our business model and brand are currently, through us or independent licensees, supporting several products and service offerings, including the following:

- leisure airline tickets, provided by 10 domestic and 24 international airline participants, and travel insurance;
- hotel rooms, in substantially all major United States markets with more than 50 national hotel chains, and in a limited number of markets outside the United States;
- rental cars, in substantially all major United States airport markets with five leading rental car chains as participants;
- new automobiles, in substantially all major United States markets;
- home financing services, in substantially all major United States markets, which includes home mortgage services, home equity loans and refinancing services;
- long distance telephone calling, provided by three carriers, and wireless telephone service, including sales of wireless telephones and service plans, in substantially all United States markets;
- fixed-price cruises and cruise packages, through a third party that accesses major cruise lines; and
- vacation packages, in many United States markets.

In certain instances, we have licensed the priceline.com name and demand collection system to third parties to offer a particular product or service (HOME FINANCING) or to offer a number of products or services in a distinct international region (ASIA). Pursuant to these licensee transactions, we generally receive a royalty under the license and may also receive fees for services and reimbursement of certain expenses. We also hold convertible securities entitling us to acquire a significant percentage of such entity's equity securities upon the occurrence of certain events.

As described in more detail in RESULTS OF OPERATIONS below, our business, like most in the travel industry, was directly and adversely impacted by the terrorist attacks on September 11, 2001. While we believe that demand for airline tickets has substantially recovered since the attacks on September 11, our airline ticket sales have lagged behind due to, among other things, lower average offer prices by our customers and less available airline ticket inventory. We believe that the lower offer prices by our customers are substantially attributable to the depressed retail environment for airline tickets, which affords consumers the opportunity to purchase airline tickets at very low retail rates without making the tradeoffs associated with our air product. In addition, at the same time that our average offer price has decreased, many airlines grounded portions of their fleets, thus decreasing capacity and increasing load factors on existing flights, which we believe has reduced inventory available to us. These trends - lower offer prices and reduced inventory - have adversely impacted our overall ability to bind customer offers and, when coupled with the significant financial difficulties faced by many of our airline suppliers, contributed to an uncertain competitive environment in which near-term forecasting is very difficult. We believe that this uncertainty, which impacted our results of operations in the first quarter of 2002, will extend into the second quarter of 2002 and perhaps beyond. We intend to combat these trends by continuing to develop our non-air business, for which demand remains strong. However, further terrorist attacks or the bankruptcy or insolvency of a major domestic airline would adversely affect our business and results of operations.

On January 31, 2002, we invested an additional $10 million in priceline.com Europe Holdings, N.V., the parent company of priceline.com europe Ltd. The other investors in priceline.com europe Ltd. include affiliates of General Atlantic Partners, LLC and certain individual investors. William Ford, a principle of General Atlantic Partners, is a member of our board of directors and chairman of our audit committee. Please see Note 5 to our consolidated financial statements.

On January 31, 2002, we entered into an agreement with eBay Inc. pursuant to which we will work with eBay to create a new travel booking service for eBay. The service, which will be powered by priceline.com, will serve as the cornerstone of eBay's travel business and will include airline, hotel, rental car, cruises and vacation packages. The new travel booking service will provide users the ability to book flights, hotel and car reservations in an auction style or "Buy it Now" format. We will be responsible for the technology, development, transaction processing infrastructure, and ongoing support of the booking service.

On February 19, 2002, we launched our vacation packages product, which allows users to make offers for hotel room reservations and airline tickets as a bundled package. The vacation packages product is a combination of our air and hotel products, and uses the same technology to search for available airline tickets and hotel rooms that meet a user's criteria, including the price set by the user for the package. There can be no assurance that our vacation packages product, or other services we may decide to offer, will be successful.

We believe that our success will depend in large part on our ability to achieve and maintain profitability, primarily from our travel business, to continue to promote the priceline.com brand and, over time, to offer other products and services on our website. We intend to continue to invest in marketing and promotion, technology and personnel within parameters consistent with attempts to improve operating results. Our goal is to increase operating profits and improve gross margins in an effort to achieve and maintain profitability. Our limited operating history and the uncertain competitive environment described above makes the prediction of future results of operations difficult, and accordingly, we cannot assure you that we will maintain revenue growth or achieve and maintain profitability.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

REVENUES

	THREE MONTHS ENDED MARCH 31, ($000)		% CHANGE
	2002	2001	
TRAVEL REVENUES....................	$259,899	$267,020	(3%)
OTHER REVENUES.....................	$1,986	$2,684	(26%)
TOTAL REVENUES.....................	$261,885	$269,704	(3%)

TRAVEL REVENUES

Travel revenues for the three months ended March 31, 2002 and 2001 consisted primarily of: (1) transaction revenues representing the selling price of airline tickets, hotel rooms and rental cars; and (2) ancillary fees, including Worldspan reservation booking fees and customer processing fees offered in connection with the sale of airline tickets, hotel rooms and rental cars.

During the three months ended March 31, 2002, we sold approximately 867,000, 909,000 and 738,000 airline tickets, hotel room nights and rental car days, respectively. During the three months ended March 31, 2001, we sold approximately 1.1 million, 433,000 and 607,000 airline tickets, hotel room nights and rental car days, respectively. We believe that the approximately 19% decrease in the number of airline tickets sold in the three months ended March 31, 2002, from the same period a year ago, was due to lower average offer prices by our customers, substantially attributable to the low retail fare environment, which caused the level at which we bind customers' offers to decline. Additionally, a reduction in the inventory of airline seats available to us contributed to the decline in airline tickets sold and the resulting decrease in travel revenues. This was partially offset by an increase in hotel room nights and, to a lesser extent, an increase in rental car days sold.

Our "bind" rate is the percentage of unique offers that we ultimately fulfill. Since April 1999, each initial offer and any resubmitted offers are treated as a single offer - a unique offer - for purposes of measuring our total offer volume and our offer fulfillment rates. Previously, each had been counted as a separate offer. Therefore, comparisons with prior periods may not be meaningful. Our "bind rate" for all unique airline ticket, hotel room and rental car offers were as follows:

		UNIQUE OFFERS FOR		
		AIRLINE TICKETS	HOTEL ROOMS	RENTAL CARS
Three Months Ended	March 31, 2002	41.7%	66.3%	46.0%
Three Months Ended	March 31, 2001	50.9%	53.5%	46.2%

As discussed in the overview to this MD&A, we believe that our travel revenues and bind rate have been negatively impacted by the weak retail fare environment for airline tickets and reduced airline inventory available to us. In particular, we believe that lower retail pricing causes customers who might normally be willing to make the trade-off associated with our products in exchange for savings off of relatively high retail rates, to purchase travel products at the lower retail rates without having to make any trade-offs. In addition, many airlines grounded

portions of their fleets in the aftermath of the attacks of September 11, thus decreasing capacity and increasing load factors on existing flights, which we believe reduced airline inventory available to us. These trends, which negatively impacted our revenues and bind rate in the fourth quarter of 2001, continued through the first quarter of 2002 and we believe will extend into the second quarter of 2002.

We added approximately 875,000 new customers during the three months ended March 31, 2002 as compared to 891,000 new customers during the three months ended March 31, 2001. In addition, we generated approximately 1.5 million repeat customer offers during the three months ended March 31, 2002 as compared to 1.2 million repeat customer offers during the three months ended March 31, 2001.

Travel revenues for the three months ended March 31, 2002 decreased approximately 3% to $259,899 million from $267,020 million for the three months ended March 31, 2001, primarily as a result of the factors described above.

OTHER REVENUES

Other revenues during the three months ended March 31, 2002 and 2001 consisted primarily of: (1) transaction revenues and fees from our long distance phone service and (2) commissions and fees from our home financing and automobile services, and license fees from our international licensees.

Other revenues for the three months ended March 31, 2002 decreased approximately 26% to $2 million from $2.7 million for the three months ended March 31, 2001, primarily as a result of the decrease in fees earned in connection with our long distance phone service.

COST OF REVENUES AND GROSS PROFIT

	THREE MONTHS ENDED MARCH 31, ($000) 2002	2001	% - CHANGE
COST OF TRAVEL REVENUES............	$219,511	$225,496	(2.7%)
% OF TRAVEL REVENUES...........	84.5%	84.4%	
COST OF OTHER REVENUES.............	$381	$1,093	(65.1%)
% OF OTHER REVENUES............	19.2%	40.7%	
TOTAL COST OF REVENUES.............	$219,892	$226,589	(3.0%)
% OF REVENUES..................	84.0%	84.0%	

COST OF REVENUES

COST OF TRAVEL REVENUES. For the three months ended March 31, 2002 and 2001, cost of travel revenues consisted primarily of: (1) the cost of airline tickets from our suppliers, net of the federal air transportation tax, segment fees and passenger facility charges imposed in connection with the sale of airline tickets; (2) the cost of hotel rooms from our suppliers, net of hotel tax; and (3) the cost of rental cars from our suppliers, net of applicable taxes.

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COST OF OTHER REVENUES. For the three months ended March 31, 2002 and 2001, cost of other revenues consisted of the cost of long distance telephone service provided by our suppliers.

GROSS PROFIT

	THREE MONTHS ENDED MARCH 31, ($000) 2002	2001	% - CHANGE
TRAVEL GROSS PROFIT................	$40,388	$41,524	(2.7%)
TRAVEL GROSS MARGIN............	15.5%	15.6%	

OTHER GROSS PROFIT.................	$ 1,605	$ 1,591	.9%
OTHER GROSS MARGIN..............	80.8%	59.3%	
TOTAL GROSS PROFIT.................	$41,993	$43,115	(2.6%)
TOTAL GROSS MARGIN..............	16.0%	16.0%	

TRAVEL GROSS PROFIT. Travel gross profit consists of travel revenues less the cost of travel revenues. We are able to manage the level of gross margins by controlling the price at which we will cause offers to be fulfilled. For the three months ended March 31, 2002, travel gross profit and related travel gross margin decreased over the same period in 2001 as a result of decreased transactional sales volume, partially offset by an increase in ancillary fees. Total gross margin remained the same in the three months ended March 31, 2002 as in the three months ended March 31, 2001.

OPERATING EXPENSES

SALES AND MARKETING

	THREE MONTHS ENDED MARCH 31, ($000)		% CHANGE
	2002	2001	
ADVERTISING.......................	$10,227	$16,189	(36.8%)
OTHER SALES & MARKETING............	$10,564	$14,434	(26.8%)
TOTAL.............................	$20,791	$30,623	(32.1%)
% OF REVENUES.....................	7.9%	11.4%	

Sales and marketing consists of advertising expenses and other sales and marketing expenses. Advertising expenses consist primarily of: (1) television and radio advertising; (2) online and email advertisements; and (3) agency fees, creative talent and production costs for television and radio commercials. For the three months ended March 31, 2002, advertising expenses decreased over the same period in 2001 primarily due to an overall decline in the cost of advertising and an effort to reduce our advertising spending. In 2001, we began shifting our marketing resources from traditional areas of marketing such as television and radio, toward online marketing. We intend to continue to pursue an advertising and branding campaign in order to continue to attract new users and retain existing users and expect to continue to shift resources to online marketing.

Other sales and marketing expenses consist primarily of: (1) credit card processing fees; (2) provisions for credit card charge-backs; (3) fees paid to third-party service providers that operate our call centers; and (4) compensation for our sales and marketing personnel. For the three months ended March 31, 2002, other sales and marketing expenses decreased over the same period in 2001 due to reductions in credit card chargebacks and customer service transaction costs.

GENERAL AND ADMINISTRATIVE

	THREE MONTHS ENDED MARCH 31, ($000) 2002	2001
GENERAL & ADMINISTRATIVE...........	$6,636	$ 9,404
PAYROLL TAX EXPENSE ON EMPLOYEE STOCK OPTIONS	104	23
STOCK BASED COMPENSATION...........	250	5,157
TOTAL..............................	$6,990	$14,584
% OF REVENUES......................	2.7%	5.4%

General and administrative expenses consist primarily of: (1) costs for personnel; (2) occupancy expenses; (3) telecommunications costs; and (4) fees for outside professionals. General and administrative expenses decreased during the three months ended March 31, 2002 over the same period in 2001 as a result of the ongoing benefits of our turn-around and restructuring plan implemented in the fourth quarter of 2000 partially offset by an increase in costs due to the consolidation of our European operations. In addition, for the three months ended March 31, 2002, we recorded charges of approximately $104,000 for payroll taxes relating to options exercised in accordance with our employee stock option plans. For the three months ended March 31, 2001, payroll taxes relating to the exercise of employee stock options were $23,000. Stock based compensation decreased over the same period in 2001 as a result of the expiration of amortization of restricted stock in the fourth quarter of 2001.

SYSTEMS AND BUSINESS DEVELOPMENT

	THREE MONTHS ENDED MARCH 31, ($000) 2002	2001	% CHANGE
Systems & Business Development..........	$10,533	$11,112	(5.2%)
% of Revenues..........................	4.0%	4.1%	

Systems and business development expenses for both periods consist primarily of: (1) compensation to our information technology and product development staff; (2) depreciation and amortization on computer hardware and software; (3) payments to outside contractors; and (4) data communications and other expenses associated with operating our Internet site. For the three months ended March 31, 2002, systems and business development expenses decreased over the same period in 2001 primarily due to a reduction of payments to outside contractors partially offset by an increase in costs due to the consolidation of our European operations.

RESTRUCTURING AND SPECIAL CHARGES

During the first quarter of 2002, we decreased the liability for the 2000 restructuring charge by approximately $824,000. The reduction resulted from the subleasing of office space vacated in the fourth quarter of 2000 under more favorable terms than originally estimated. The reduction was reflected in the restructuring line of the statement of operations.

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EQUITY IN NET INCOME OF PRICELINEMORTGAGE

Equity in net income of pricelinemortgage for the three months ended March 31, 2002, of $492 represents the Company's pro rata share of income from the Company's 49% equity investment in pricelinemortgage. There was no comparable income for the three months ended March 31, 2001.

INTEREST INCOME

	THREE MONTHS ENDED MARCH 31, ($000)		% - CHANGE
	2002	2001	
INTEREST INCOME....................	$782	$1,776	(56.0%)

For the three months ending March 31, 2002, interest income on cash and marketable securities decreased primarily due to lower interest rates.

TAXES

For the three months ended March 31, 2002, we have recorded no provision for income taxes due to the availability of fully reserved net operating losses which have been utilized to offset the income tax provision.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002 we had approximately $177.8 million in cash, cash equivalents, short-term investments and restricted cash. Approximately $17.5 million is restricted cash collateralizing certain letters of credit issued in favor of certain suppliers and landlords and amounts held by our credit card processor company. We generally invest excess cash, cash equivalents and short-term investments predominantly in debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than one year with the intent to make such funds readily available for operating purposes.

Net cash provided by operating activities was $14.1 million for the three months ended March 31, 2002, including $3.9 million of net income adjusted for non-cash items. An increase in accounts payable and accrued expenses of $8.6 million increased cash provided by operating activity. Net cash used in operating activities during the period ended March 31, 2001 was $6.3 million. This was primarily attributable to net loss from operations.

Net cash used in investing activities was $24.3 million and $22 million for the three months ended March 31, 2002 and 2001, respectively. In both periods, net cash used in investing activities was partially related to purchases of property and equipment. Also affecting net cash used in investing activities in the three months ended March 31, 2002 and March 31, 2001 was the purchase of short-term investments and marketable securities in the amount of $19.1 million and $16 million, respectively.

We have certain commitments for capital expenditures as part of our ongoing business cycle. None of these commitments are material to our financial position either individually or in the aggregate. Expenditures for additions to property and equipment, and to a much lesser extent, resolution of certain claims, is expected to aggregate approximately $12 to $20 million in 2002.

Net cash provided by financing activities was $2.3 million for the three months ended March 31, 2002. This was primarily the result of proceeds from the exercise of employee stock options. Net cash provided by financing activities was $49.9 million for the three months ended March 31, 2001, and was primarily the result of the sale of 23.8 million shares of common stock at a price of $2.10 per share to Hutchison-Whampoa Limited and Cheung Kong (Holdings) Limited in February 2001. Based on public filings with the Securities and Exchange

Commission, Hutchison-Whampoa Limited and Cheung Kong (Holdings) Limited collectively own approximately 31% of our outstanding common stock. See "Factors that May Affect Future Results - Two Large Stockholders Beneficially Own Approximately 31% of Our Stock."

We may elect to loan additional amounts to Hutchison-Priceline Limited in 2002.

We believe that our existing cash balances and liquid resources will be sufficient to fund our operating activities, capital expenditures and other obligations through at least the next twelve months. However, if during that period or thereafter, we are not successful in generating sufficient cash flow from operations or in raising additional capital when required in sufficient amounts and on terms acceptable to us, we may be required to reduce our planned capital expenditures and scale back the scope of our business plan, either of which could have a material adverse effect on our projected financial condition or results of operation. If additional funds were raised through the issuance of equity securities, the percentage ownership of our then current stockholders would be diluted. We cannot assure you that we will generate sufficient cash flow from operations in the future, that revenue growth will be realized or that future borrowings or equity contributions will be available in amounts sufficient to make anticipated capital expenditures or finance our business plan.

FACTORS THAT MAY AFFECT FUTURE RESULTS

THE FOLLOWING RISK FACTORS AND OTHER INFORMATION INCLUDED IN THIS FORM 10-Q 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 DEEM IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS, FINANCIAL CONDITION, OPERATING RESULTS AND CASH FLOWS COULD BE MATERIALLY ADVERSELY AFFECTED.

WE MAY CONTINUE TO INCUR LOSSES

As of March 31, 2002, we had an accumulated deficit of $1.5 billion. Despite the progress we have made towards sustained profitability, we may incur losses and may not be profitable in future years. In particular, a depressed retail environment for the sale of airline tickets and the general decline in leisure travel since the events of September 11, 2001 have had a negative impact on our business and results of operations. We may not have decreased our operating expenses in connection with our recent restructuring on an on-going basis sufficiently to achieve and sustain profitability in this difficult environment.

FURTHER TERRORIST ATTACKS OR HOSTILITIES COULD HAVE A NEGATIVE IMPACT ON OUR COMPANY

Our business, like most in the travel industry, was directly and adversely impacted by the terrorist attacks of September 11, 2001. We experienced an immediate and substantial decline in demand for our travel products in the days following the attacks and a significant increase in customer service costs and ticket refunds and cancellations. Further terrorist attacks or hostilities within the United States or abroad (whether or not such attacks involve commercial aircraft) or continued or increased hostilities in the Middle East or elsewhere, are likely to contribute to a general reluctance by the public to travel by air and, as a result, materially and adversely affect our business and results of operations.

OUR BUSINESS IS EXPOSED TO RISKS ASSOCIATED WITH CREDIT CARD FRAUD AND CHARGE-BACKS

To date, our results have been impacted by purchases made using fraudulent credit cards. Because we act as the merchant-of-record, we are held liable for fraudulent credit card transactions on our website as well as other payment disputes with our customers. Accordingly, we calculate and record an allowance for the resulting credit card charge-backs. During the second half of 2001, we launched a company-wide credit card charge-back reduction project aimed at preventing fraud. To date, this project has been successful in reducing fraud, however, if we are unable to continue to reduce the amount of credit card fraud on our website, our business could be adversely affected.

WE ARE DEPENDENT ON THE AIRLINE INDUSTRY AND CERTAIN AIRLINES

Our financial prospects are significantly dependent upon our sale of leisure airline tickets. Sales of leisure airline tickets represented a substantial majority of total revenue for the quarter ended March 31, 2002. Leisure travel, including the sale of leisure airline tickets, is dependent on personal discretionary spending levels. As a result, sales of leisure airline tickets and other leisure travel products tend to decline during general economic downturns and recessions. In addition, unforeseen events, such as terrorist attacks, political instability, regional hostilities, increases in fuel prices, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns also may adversely affect the leisure travel industry. As a result, our business also is likely to be affected by those events. Further, work stoppages or labor unrest at any of the major airlines could materially and adversely affect the airline industry and, as a consequence, our business.

Sales of airline tickets from our four largest airline suppliers accounted for approximately 80% of airline ticket revenue for the quarter ended March 31, 2002. As a result, currently we are substantially dependent upon the continued participation of these airlines in the priceline.com service in order to maintain and continue to grow our total airline ticket revenues and, as a consequence, our overall revenues.

We currently have 34 participating airlines. However, our arrangements with the airlines that participate in our system:

- do not require the airlines to make tickets available for any particular routes;
- do not require the airlines to provide any specific quantity of airline tickets;
- do not require the airlines to provide particular prices or levels of discount;
- do not require the airlines to deal exclusively with us in the public sale of discounted airline tickets;
- often limit the manner in which we can sell inventory; and
- generally, can be terminated upon little or no notice.

We are in continual dialogue with our major airline suppliers about the nature and extent of their participation. Should any of our major suppliers significantly reduce their participation in the priceline.com system or withdraw completely, our business and results of operations could be materially and adversely affected.

Due to our dependence on the airline industry, we could be severely affected by changes in that industry, and, in many cases, we will have no control over such changes or their timing. For example, we believe that our business has been adversely affected by the general reduction in airline capacity and increase in airline load factors since September 11. Further, in the aftermath of the September 11 terrorist attacks, several major U.S. airlines are struggling financially and have discussed publicly the risks of bankruptcy. For example, U.S. Airways recently warned that it may be forced to file for bankruptcy if it does not receive significant concessions from its labor unions. If any of the major U.S. airlines that participate in our system were to seek the protection of the bankruptcy laws, our business, results of operations and financial condition could be materially and adversely affected. To the extent one of the major U.S. airlines that participates in our system declared bankruptcy, it may be unable or unwilling to honor tickets sold for its flights.

Our policy in such event would be to direct customers seeking a refund or exchange to the airline, and not to provide a remedy ourselves. Because we are the merchant-of-record on sales of airline tickets to our customers, however, we could experience a significant increase in demands for refunds or credit card charge-backs from customers which would materially and adversely affect our business. In addition, because our customers do not choose the airlines on which they are to fly, the possibility of a major U.S. airline declaring bankruptcy could discourage customers from booking airline tickets through us.

In addition, given the concentration of the airline industry, particularly in the domestic market, major airlines that are not participating in the priceline.com service, or our competitors, could exert pressure on other airlines not to supply us with tickets. Moreover, the airlines may attempt to establish their own buyer-driven commerce service or participate or invest in other similar services, like Hotwire, a website that offers discounted fares on opaque inventory, or Orbitz, that compete directly with us.

POTENTIAL FLUCTUATIONS IN OUR FINANCIAL RESULTS MAKE FINANCIAL FORECASTING DIFFICULT

Our revenues and operating results have varied significantly from quarter to quarter and our revenues and operating results may continue to vary significantly from quarter to quarter. As a result, quarter to quarter comparisons of our revenues and operating results may not be meaningful. In addition, due to our limited operating history, a business model that is, especially when compared to "brick and mortar" companies, still relatively new and unproven, and an uncertain environment in the travel industry, it may be difficult to predict our future revenues or results of operations accurately. In late 2000, our operating results fell below the expectations of securities analysts and investors and may, in one or more future quarters, fall below such expectations again. If this happens, the trading price of our common stock would almost certainly be materially and adversely affected.

NEW BUSINESSES WE MAY ENTER OR OUR EXISTING LICENSEES MAY NOT BE SUCCESSFUL

We have entered into, and may enter into in the future, licensing or other arrangements with third parties in connection with the expansion of the priceline.com service. For example, we license our name and business model to priceline mortgage in connection with our home financing services and to priceline.com europe, a majority owned subsidiary, and Hutchison-Priceline in connection with the development of our business model in Europe and Asia, respectively. These new businesses typically incur start-up costs and operating losses and may not be successful. Both priceline.com europe and Hutchison-Priceline have operating losses and will continue to have operating losses for the forseeable future. If these new businesses are not favorably received by consumers or are unsuccessful, the association of our brand name and business model with these new entities may adversely affect our business and reputation and may dilute the value of our brand name. Further, to the extent that these new businesses are not successful, we may not be able to recover or be reimbursed for our ongoing costs associated with their development and our investment could be impaired, which could have a material adverse effect on our business and results of operations.

WE MAY NOT BE ABLE TO INTRODUCE NEW PRODUCTS AND SERVICES

Should we decide to introduce additional products, we may incur substantial expenses and use significant resources. However, we may not be able to attract sellers, other participants and licensees to provide such products and services or consumers to purchase such products and services through the priceline.com service. In addition, if we or our licensees launch new products or services that are not favorably received by consumers, our reputation and the value of the priceline.com brand could be damaged.

The great majority of our experience to date is in the travel industry. The travel industry is characterized by "expiring" inventories. For example, if not used by a specific date, an airline ticket, hotel room reservation or rental car reservation has no value. The expiring nature of the inventory creates incentives for airlines, hotels and rental car companies to sell seats, hotel room reservations or rental car reservations at reduced rates. Because we have only limited experience in selling "non-expiring" inventories on the priceline.com service, such as new cars or financial services, we cannot predict whether the priceline.com business model can be successfully applied to such products and services.

IF WE LOSE OUR KEY PERSONNEL OR CANNOT RECRUIT ADDITIONAL PERSONNEL, OUR BUSINESS MAY SUFFER

We depend on the continued services and performance of our executive officers and other key personnel. We do not have "key person" life insurance policies. If we do not succeed in attracting new employees or retaining and motivating current and future employees or executive officers, our business could suffer significantly. Our ability to retain key employees could be materially adversely affected by recent developments concerning priceline.com and the decline in the market price of our common stock and by limitations on our ability to pay cash compensation that is equivalent to cash paid by traditional businesses and limitations imposed by our employee benefit plans to issue additional equity incentives.

TWO LARGE STOCKHOLDERS BENEFICIALLY OWN APPROXIMATELY 31% OF OUR STOCK

Hutchison Whampoa Limited and its 49.94% shareholder, Cheung Kong (Holdings) Limited, collectively beneficially owned approximately 31% of our outstanding common stock, based on public filings with the Securities and Exchange Commission. Together, Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited have

appointed three of the twelve members of our Board of Directors. As a result of their ownership and positions, Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of our company. In addition, both Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited have registration rights with respect to their shares of priceline.com. On September 20, 2001, Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited withdrew a request they had made for us to file a shelf registration statement to sell shares and obtained rights to purchase up to a 37.5% stake in priceline.com, subject to certain limitations. There can be no assurance that Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited, or both, will not make another request for registration and dispose of all or substantially all of our common stock held by them at any time after the effectiveness of a shelf registration statement. Sales of significant amounts of shares held by Cheung Kong (Holdings) Limited or Hutchison Whampoa Limited, or the prospect of these sales, could adversely affect the market price of our common stock.

INTENSE COMPETITION COULD REDUCE OUR MARKET SHARE AND HARM OUR FINANCIAL PERFORMANCE

We compete with both online and traditional sellers of the products and services offered on priceline.com. Current and new competitors can launch new sites at a relatively low cost. In addition, the traditional retail industry for the products and services we offer is intensely competitive. In 2001, we saw the continuation of a trend in the online travel industry toward vertical integration. For example, in October 2001, Cendant Corporation, a diversified global provider of business and consumer services which owns, among other things, Avis and is the world's largest franchiser of hotels, purchased online travel provider Cheaptickets.com as well as Galileo International, Inc., a global distribution system. In addition, in February 2002, USA Networks, Inc., which owns a controlling stake in Hotel Reservations Network, acquired a controlling stake in Expedia, Inc. If this trend continues, we might not be able to effectively compete with industry conglomerates that have access to greater and more diversified resources than we do.

We currently or potentially compete with a variety of companies with respect to each product or service we offer. With respect to travel products, these competitors include:

- Internet travel services such as Expedia, Travelocity.com, Orbitz and Hotwire, a website that offers discounted fares on opaque inventory;
- traditional travel agencies;
- consolidators and wholesalers of airline tickets and other travel products, including online consolidators such as Hotel Reservation Network and Cheaptickets.com;
- individual or groups of airlines, hotels, rental car companies, cruise operators and other travel service providers (all of which may provide services by telephone or through a website); and
- operators of travel industry reservation databases such as Worldspan and Sabre.

A number of airlines, including a number that participate in our system, have invested in and offer discount airfares and travel services through the Orbitz internet travel service, and a number of airlines, including a number that participate in our system, participate in and have received an equity stake from Hotwire. The June 2001 launch of Orbitz has had a strong impact on the online travel industry. Specifically, because Orbitz is airline-owned, it is in a position to forego certain revenue streams upon which other online travel suppliers may be dependant, such as commissions and global distribution system fees. Orbitz's prices, which unlike ours, are disclosed to the consumer, are typically lower than other online travel providers offering disclosed price fares. In addition, in February 2002, several major hotel brands announced the creation of Hotel Distribution System, a joint venture to market hotel

rooms over the Internet through multiple websites. Competition from these and other sources could have a material adverse effect on our business, results of operations and financial condition.

With respect to financial service products, our competitors include banks and other financial institutions, and online and traditional mortgage and insurance brokers, including mortgage.com, Quicken Mortgage, E-Loan, LendingTree and iOwn, Inc.

With respect to long distance and wireless services, our current or potential competitors include long distance and wireless providers, local exchange providers that may be entering the long distance market and Internet Protocol telephone services.

With respect to the sale of new automobiles, our competitors include online companies as well as traditional car dealers, many of which offer online shopping capabilities.

We potentially face competition from a number of large Internet companies and services that have expertise in developing online commerce and in facilitating Internet traffic, including Amazon.com and Yahoo!, who could choose to compete with us either directly or indirectly through affiliations with other e-commerce or off-line companies. Other large companies with strong brand recognition, technical expertise and experience in Internet commerce could also seek to compete with us. Competition from these and other sources could have a material adverse effect on our business, results of operations and financial condition.

Many of our current and potential competitors, including Internet directories and search engines and large traditional retailers, have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, technical and other resources than we have. Some of these competitors may be able to secure products and services on more favorable terms than we can. In addition, many of these competitors may be able to devote significantly greater resources to: (1) marketing and promotional campaigns, (2) attracting traffic to their websites, (3) attracting and retaining key employees, (4) securing vendors and inventory and (5) website and systems development.

Increased competition could result in reduced operating margins and loss of market share and could damage our brand. There can be no assurance that we will be able to compete successfully against current and future competitors or that competition will not have a material adverse effect on our business, results of operations and financial condition.

WE RELY ON THIRD-PARTY SYSTEMS

We rely on certain third-party computer systems and third-party service providers, including the computerized central reservation systems of the airline and hotel industries to satisfy demand for airline tickets and hotel room reservations. In particular, our travel business is substantially dependent upon the computerized reservation system of Worldspan, an operator of a database for the travel industry. Any interruption in these third-party services systems, including Worldspan's, or deterioration in their performance could prevent us from booking airline, hotel and rental car reservations and have a material adverse effect on our business. Our agreements with 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 of such third parties 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, our business and results of operations could be materially and adversely affected.

Substantially all of our computer hardware for operating our services is currently located at Exodus Communications, Inc. in New Jersey. On September 26, 2001, Exodus filed a petition for Chapter 11 bankruptcy protection. On February 1, 2002, Exodus announced that Cable and Wireless plc had completed the acquisition of a majority of the business activities of Exodus and substantially all of its U.S. customer contracts, including our contract. If Exodus is unable, for any reason, to support our primary web hosting facility, we would need to activate our secondary site at AT&T which would be a substantial burden to us and adversely affect our results.

We do not maintain fully redundant systems or hosting services, and we do not carry business interruption insurance sufficient to compensate us for losses that may occur.

CAPACITY CONSTRAINTS AND SYSTEM FAILURES COULD HARM OUR BUSINESS

Substantially all of our computer hardware for operating our services currently is located at the facilities of Exodus Communications, Inc. in New Jersey. 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 and similar misconduct. In addition, we could experience interruptions as a result of Exodus' bankruptcy or the transfer of its business to Cable and Wireless plc. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at the Exodus facility could result in lengthy interruptions in our services. In addition, the failure by Exodus to provide our required data communications capacity could result in interruptions in our service. Any system failure that causes an interruption in service or decreases the responsiveness of the priceline.com service could impair our reputation, damage our brand name and materially adversely affect our business and results of operations.

If our systems cannot be expanded to cope with increased demand or fails to perform, we could experience:

- unanticipated disruptions in service;
- slower response times;
- decreased customer service and customer satisfaction; or
- delays in the introduction of new products and services;

any of which could impair our reputation, damage the priceline.com brand and materially and adversely affect our revenues. Publicity about a service disruption also could cause a material decline in our stock price.

Like many online businesses, we have experienced system failures from time to time. For example, in May 2001, our primary website was interrupted for a period of 12 hours. In addition to placing increased burdens on our engineering staff, these outages create a significant amount of user 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 can be substantial and may cause some users to switch to our competitors. If we experience frequent or persistent system failures, our reputation and brand could be permanently harmed. We have been taking steps to increase the reliability and redundancy of our system. These steps are expensive, may reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

We use internally developed systems to operate the priceline.com service, including transaction processing and order management systems that were designed to be scaleable. However, if the number of users of the priceline.com service increases substantially, we will need to significantly expand and upgrade our technology, transaction processing systems and network infrastructure. We do not know whether we will be able to accurately project the rate or timing of any such increases, or expand and upgrade our systems and infrastructure to accommodate such increases in a timely manner.

OUR SUCCESS DEPENDS ON OUR ABILITY TO PROTECT OUR INTELLECTUAL PROPERTY

We regard our intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees, customers, partners and others to protect our proprietary rights. If we are not successful in protecting our intellectual property, there could be a material adverse effect on our business.

While we believe that our issued patents and pending patent applications help to protect our business, there can be no assurance that:

- any patent can be successfully defended against challenges by third parties;
- pending patent applications will result in the issuance of patents;
- competitors or potential competitors of priceline.com will not devise new methods of competing with us that are not covered by our patents or patent applications;
- because of variations in the application of our business model to each of our products and services, our patents will be effective in preventing one or more third parties from utilizing a copycat business model to offer the same product or service in one or more categories;
- new prior art will not be discovered which may diminish the value of or invalidate an issued patent; or
- a third party will not have or obtain one or more patents that prevent us from practicing features of our business or will require us to pay for a license to use those features.

There has been recent discussion in the press regarding the examination and issuance of so called "business-method" patents. As a result, the United States Patent and Trademark Office has indicated that it intends to intensify the review process applicable to such patent applications. The new procedures are not expected to have a direct effect on patents already granted. We cannot anticipate what effect, if any, the new process will have on our pending patent applications.

We pursue the registration of our trademarks and service marks in the U.S. and internationally. However, effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are made available online. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that might diminish the value of our proprietary rights or harm our reputation.

LEGAL PROCEEDINGS

We are a party to the legal proceedings described in Note 8 to Unaudited Consolidated Financial Statements included in this Form 10-Q and Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2001. The defense of the actions described in Note 8 may increase our expenses and an adverse outcome in any of such actions could have a material adverse effect on our business and results of operations.

WE MAY NOT BE ABLE TO KEEP UP WITH RAPID TECHNOLOGICAL AND OTHER CHANGES

The markets in which we compete are characterized by rapidly changing technology, evolving industry standards, frequent new service and product 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 emerging nature of the Internet and the apparent need of companies from many industries to offer Internet-based products and services. 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 improve the performance, features and reliability of our service in response to competitive service and product offerings and the evolving demands of the marketplace. 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.

ONLINE SECURITY BREACHES COULD HARM OUR BUSINESS

The secure transmission of confidential information over the Internet is essential in maintaining consumer and supplier confidence in the priceline.com service. Substantial or ongoing security breaches - whether instigated internally or externally - on our system or other Internet-based systems could significantly harm our business. We currently require buyers to guarantee their offers with their credit card, either online or through our toll-free telephone service. We rely on licensed encryption and authentication technology to effect secure transmission of confidential information, including credit card numbers. It is possible that advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect customer transaction data.

We incur substantial expense to protect against and remedy security breaches and their consequences. However, we cannot guarantee that our security measures will prevent security breaches. A party that is able to circumvent our security systems could steal proprietary information or cause significant interruptions in our operations. For instance, several major websites have experienced significant interruptions as a result of improper direction of excess traffic to those sites, and computer viruses have substantially disrupted e-mail and other functionality in a number of countries, including the United States. Security breaches also could damage our reputation and expose us to a risk of loss or litigation and possible liability. Our insurance policies carry low coverage limits, which may 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 inhibit the growth of the Internet and, therefore, the priceline.com service as a means of conducting commercial transactions.

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:

- quarterly variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- changes in our capital structure;
- changes in market valuations of other Internet or online service companies;
- announcements of technological innovations or new services by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- loss of a major seller participant, such as an airline or hotel chain;
- changes in the status of our intellectual property rights;
- lack of success in the expansion of our business model horizontally or geographically;

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

Sales of a substantial number of shares of our common stock 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.

In addition, the trading prices of Internet 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 further 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 or interest rate or currency rate fluctuations, also may decrease the market price of our common stock. The market value of e-commerce stocks has declined dramatically recently based on profitability and other concerns. The recent declines in the value of our common stock and market conditions could adversely affect our ability to raise additional capital.

We are defendants in a number of securities class action litigations. In the past, securities class action litigation often has 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. Securities and other litigation could result in substantial costs and divert management's attention and resources. See Part II, Item 1 - Legal Proceedings

UNCERTAINTY REGARDING STATE TAXES

We file tax returns in such states as required by law based on principles applicable to traditional businesses. In addition, we do not collect sales or other similar taxes in respect of transactions conducted through the priceline.com service (other than the federal air transportation tax). However, one or more states could seek to impose additional income tax obligations or sales tax collection obligations on companies, such as ours, which engage in or facilitate online commerce. A number of proposals have been made at state and local levels that could impose such taxes on the sale of products and services through the Internet or the income derived from such sales. Such proposals, if adopted, could substantially impair the growth of e-commerce and adversely affect our opportunity to achieve and sustain profitability.

REGULATORY AND LEGAL UNCERTAINTIES COULD HARM OUR BUSINESS

The products and services we offer through the priceline.com service are regulated by federal and state governments. Our ability to provide such products and services is and will continue to be affected by such regulations. The implementation of unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected markets to become impractical and otherwise adversely affect our financial performance.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Sections of this Form 10-Q contain forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed, implied or forecasted in any such forward-looking statements.

Expressions of future goals and similar expressions including, without limitation, "may," "will," "should," "could," "expects," "does not currently expect," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "targets," or "continue," reflecting something other than historical fact are intended to identify forward-

looking statements. The following factors, among others, could cause our actual results to differ materially from those described in the forward-looking statements: adverse changes in general market conditions for leisure and other travel products as the result of, among other things, terrorist attacks or hostilities; adverse changes in our relationships with airlines and other product and service providers, including, without limitation, the withdrawal of providers from the priceline.com system; the bankruptcy or insolvency of a major domestic airline; the effects of increased competition; systems-related failures and/or security breaches; our ability to protect our intellectual property rights; losses by us and our licensees; any adverse impact from negative publicity as a result of recent events and negative customer reaction to such publicity; legal and regulatory risks and the ability to attract and retain qualified personnel. These factors and others are described in more detail above in the section entitled "Factors That May Affect Future Results." 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 from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Priceline.com currently has no floating rate indebtedness, holds no derivative instruments other than through investments in licensees and does not earn significant foreign-sourced income. Accordingly, changes in interest rates or currency exchange rates do not generally have a direct material effect on priceline.com's financial position. However, changes in currency exchange rates may affect the cost of international airline tickets and international hotel reservations offered through the priceline.com service, and so indirectly affect consumer demand for such products and priceline.com's revenue. In the event of such weakness, such additional US dollars would have reduced purchasing power. In addition, to the extent that changes in interest rates and currency exchange rates affect general economic conditions, priceline.com would also be affected by such changes. If the US dollar weakens versus the British Pound Sterling, we may have to invest additional US dollars in priceline.com europe Ltd. to fund its ongoing operations.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please see Note 8 to the Notes to Unaudited Consolidated Financial Statements included in this Form 10-Q and Part I, Item 3 of priceline.com's Annual Report on Form 10-K for the year ended December 31, 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

REPORTS ON FORM 8-K

On January 7, 2002, we furnished a report on Form 8-K in connection with the attendance at the Morgan Stanley Internet, Software & Networking Conference in Scottsdale, Arizona by Jeffery H. Boyd. On February 4, 2002, we filed a report on Form 8-K in connection with our fourth quarter 2001 earnings announcement. On February 26, 2002, we furnished a report on Form 8-K in connection with the attendance at the CIBC World Markets Annual Gaming, Lodging & Leisure Conference in New York City by Jeffery H. Boyd.

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.

PRICELINE.COM INCORPORATED
(Registrant)

Date: May 15, 2002 By: /s/ Robert Mylod

Name: Robert Mylod
Title: Chief Financial Officer