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

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

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**  
(State or other jurisdiction of  
incorporation or organization)

**06-1528493**  
(I.R.S. Employer  
Identification Number)

**800 Connecticut Avenue  
Norwalk, Connecticut 06854**  
(address of principal executive offices)

**(203) 299-8000**  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed, since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of Common Stock outstanding at July 29, 2011:

**Common Stock, par value \$0.008 per share**  
(Class)

**49,769,877**  
(Number of Shares)

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priceline.com Incorporated  
Form 10-Q

For the Three Months Ended June 30, 2011

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**PART I — FINANCIAL INFORMATION**  
**Item 1. Unaudited Consolidated Financial Statements**  
**priceline.com Incorporated**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except share and per share data)**

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 611,249	\$ 358,967
Restricted cash	1,079	1,050
Short-term investments	1,338,169	1,303,251
Accounts receivable, net of allowance for doubtful accounts of \$5,788 and \$6,353, respectively	321,358	162,426
Prepaid expenses and other current assets	52,721	61,211
Deferred income taxes	51,859	70,559
Total current assets	<u>2,376,435</u>	<u>1,957,464</u>
Property and equipment, net	49,346	39,739
Intangible assets, net	228,885	232,030
Goodwill	529,594	510,894
Deferred income taxes	158,658	151,408
Other assets	17,157	14,418
Total assets	<u>\$ 3,360,075</u>	<u>\$ 2,905,953</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 127,794	\$ 90,311
Accrued expenses and other current liabilities	267,888	243,767
Deferred merchant bookings	243,733	136,915
Convertible debt (see Note 8)	486,778	175
Total current liabilities	<u>1,126,193</u>	<u>471,168</u>
Deferred income taxes	54,679	56,440
Other long-term liabilities	33,858	42,990
Convertible debt (see Note 8)	—	476,230
Total liabilities	<u>1,214,730</u>	<u>1,046,828</u>
Redeemable noncontrolling interests (see Note 11)	67,496	45,751
Convertible debt (see Note 8)	88,222	38
Stockholders' equity:		
Common stock, \$0.008 par value; authorized 1,000,000,000 shares, 57,540,672 and 56,567,236 shares issued, respectively	446	438
Treasury stock, 7,770,795 and 7,421,128 shares, respectively	(799,106)	(640,415)
Additional paid-in capital	2,372,283	2,417,092
Accumulated earnings	396,528	69,110
Accumulated other comprehensive income (loss)	19,476	(32,889)
Total stockholders' equity	<u>1,989,627</u>	<u>1,813,336</u>
Total liabilities and stockholders' equity	<u>\$ 3,360,075</u>	<u>\$ 2,905,953</u>

See Notes to Unaudited Consolidated Financial Statements.

**priceline.com Incorporated**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Merchant revenues	\$ 530,530	\$ 446,669	\$ 985,334	\$ 814,933
Agency revenues	569,181	317,512	920,603	530,755
Other revenues	3,005	3,258	6,098	6,144
Total revenues	<u>1,102,716</u>	<u>767,439</u>	<u>1,912,035</u>	<u>1,351,832</u>
Cost of revenues	<u>353,489</u>	<u>322,184</u>	<u>657,001</u>	<u>587,462</u>
Gross profit	<u>749,227</u>	<u>445,255</u>	<u>1,255,034</u>	<u>764,370</u>
Operating expenses:				
Advertising — Online	236,282	132,518	421,391	245,627
Advertising — Offline	9,815	10,123	21,429	21,911
Sales and marketing	41,030	28,490	75,807	52,603
Personnel, including stock-based compensation of \$13,113, \$15,465, \$27,106 and \$27,374, respectively	85,766	62,850	160,988	112,628
General and administrative	29,736	22,462	55,614	40,493
Information technology	8,239	4,895	14,908	9,503
Depreciation and amortization	13,651	10,758	26,130	20,537
Total operating expenses	<u>424,519</u>	<u>272,096</u>	<u>776,267</u>	<u>503,302</u>
Operating income	<u>324,708</u>	<u>173,159</u>	<u>478,767</u>	<u>261,068</u>
Other income (expense):				
Interest income	2,129	940	3,550	1,795
Interest expense	(7,795)	(9,267)	(15,510)	(14,072)
Foreign currency transactions and other	(2,451)	1,039	(9,523)	(2,092)
Total other income (expense)	<u>(8,117)</u>	<u>(7,288)</u>	<u>(21,483)</u>	<u>(14,369)</u>
Earnings before income taxes	316,591	165,871	457,284	246,699
Income tax expense	<u>(60,314)</u>	<u>(51,275)</u>	<u>(96,993)</u>	<u>(78,228)</u>
Net income	256,277	114,596	360,291	168,471
Less: net loss attributable to noncontrolling interests	(91)	(361)	(867)	(361)
Net income applicable to common stockholders	<u>\$ 256,368</u>	<u>\$ 114,957</u>	<u>\$ 361,158</u>	<u>\$ 168,832</u>
Net income applicable to common stockholders per basic common share	<u>\$ 5.16</u>	<u>\$ 2.41</u>	<u>\$ 7.29</u>	<u>\$ 3.59</u>
Weighted average number of basic common shares outstanding	<u>49,718</u>	<u>47,791</u>	<u>49,519</u>	<u>47,054</u>
Net income applicable to common stockholders per diluted common share	<u>\$ 5.02</u>	<u>\$ 2.26</u>	<u>\$ 7.06</u>	<u>\$ 3.31</u>
Weighted average number of diluted common shares outstanding	<u>51,105</u>	<u>50,847</u>	<u>51,134</u>	<u>51,032</u>

See Notes to Unaudited Consolidated Financial Statements.

**priceline.com Incorporated**  
**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2011**  
**(In thousands)**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2010	56,567	\$ 438	(7,421)	\$ (640,415)	\$ 2,417,092	\$ 69,110	\$ (32,889)		\$ 1,813,336
Net income applicable to common stockholders	—	—	—	—	—	361,158	—	\$ 361,158	
Unrealized loss on marketable securities, net of tax benefits of \$104	—	—	—	—	—	—	(485)	(485)	
Currency translation adjustments, net of tax benefits of \$18,732	—	—	—	—	—	—	52,850	52,850	
Comprehensive income								\$ 413,523	413,523
Redeemable noncontrolling interests fair value adjustments	—	—	—	—	—	(33,740)	—		(33,740)
Reclassification adjustment for convertible debt in mezzanine	—	—	—	—	(88,184)	—	—		(88,184)
Conversion of debt	5	—	—	—	—	—	—		—
Exercise of stock options and vesting of restricted stock units and/or performance shares	969	8	—	—	3,861	—	—		3,869
Repurchase of common stock	—	—	(350)	(158,691)	—	—	—		(158,691)
Stock-based compensation and other stock-based payments	—	—	—	—	27,341	—	—		27,341
Excess tax benefit on stock-based compensation	—	—	—	—	12,173	—	—		12,173
Balance, June 30, 2011	<u>57,541</u>	<u>\$ 446</u>	<u>(7,771)</u>	<u>\$ (799,106)</u>	<u>\$ 2,372,283</u>	<u>\$ 396,528</u>	<u>\$ 19,476</u>		<u>\$ 1,989,627</u>

See Notes to Unaudited Consolidated Financial Statements.

**priceline.com Incorporated**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Six Months Ended June 30,	
	2011	2010
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 360,291	\$ 168,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,225	7,869
Amortization	16,905	13,597
Provision for uncollectible accounts, net	4,852	3,464
Deferred income taxes	19,870	24,043
Stock-based compensation expense and other stock-based payments	27,341	27,374
Amortization of debt issuance costs	1,113	1,893
Amortization of debt discount	10,553	9,466
Loss on early extinguishment of debt	32	8,108
Changes in assets and liabilities:		
Accounts receivable	(154,216)	(85,516)
Prepaid expenses and other current assets	9,089	(9,636)
Accounts payable, accrued expenses and other current liabilities	204,307	123,843
Other	(9,860)	(960)
Net cash provided by operating activities	<u>499,502</u>	<u>292,016</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of investments	(1,006,694)	(796,728)
Proceeds from sale of investments	1,025,514	470,198
Additions to property and equipment	(18,077)	(10,233)
Acquisitions and other equity investments, net of cash acquired	(67,074)	(110,972)
Proceeds from settlement of foreign currency contracts	—	32,478
Payments on foreign currency contracts	(33,764)	(4,283)
Change in restricted cash	(35)	(33)
Net cash used in investing activities	<u>(100,130)</u>	<u>(419,573)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of convertible debt	—	575,000
Payment of debt issuance costs	—	(13,334)
Payments related to conversion of convertible debt	(213)	(173,375)
Repurchase of common stock	(158,691)	(125,423)
Payments to purchase subsidiary shares from noncontrolling interests	(12,986)	—
Proceeds from the sale of subsidiary shares to noncontrolling interests	—	4,311
Proceeds from exercise of stock options	3,870	23,449
Excess tax benefit on stock-based compensation	12,173	2,335
Net cash (used in) provided by financing activities	<u>(155,847)</u>	<u>292,963</u>
Effect of exchange rate changes on cash and cash equivalents	<u>8,757</u>	<u>(11,512)</u>
Net increase in cash and cash equivalents	252,282	153,894
Cash and cash equivalents, beginning of period	358,967	202,141
Cash and cash equivalents, end of period	<u>\$ 611,249</u>	<u>\$ 356,035</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for income taxes	<u>\$ 55,461</u>	<u>\$ 31,002</u>
Cash paid during the period for interest	<u>\$ 3,717</u>	<u>\$ 776</u>
Non-cash fair value adjustment for redeemable noncontrolling interests	<u>\$ 33,740</u>	<u>\$ —</u>

See Notes to Unaudited Consolidated Financial Statements.

**priceline.com Incorporated**  
**Notes to Unaudited Consolidated Financial Statements**

**1. BASIS OF PRESENTATION**

Priceline.com Incorporated (“priceline.com” or the “Company”) is responsible for the Unaudited Consolidated Financial Statements included in this document. The Unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include all normal and recurring adjustments that management of the Company considers necessary for a fair presentation of its financial position and operating results. The Company prepared the Unaudited Consolidated Financial Statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, the Company condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements. These statements should be read in combination with the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

The Unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries and its majority-owned interest in TravelJigsaw Holdings Limited since its acquisition in May 2010. All intercompany accounts and transactions have been eliminated in consolidation. The functional currency of the Company’s foreign subsidiaries is generally the respective local currency. Assets and liabilities are translated into U.S. Dollars at the rate of exchange existing at the balance sheet date. Income statement amounts are translated at the average exchange rates for the period. Translation gains and losses are included as a component of “Accumulated other comprehensive income (loss)” in the accompanying Unaudited Consolidated Balance Sheets. Foreign currency transaction gains and (losses) are included in the Unaudited Consolidated Statements of Operations in “Foreign currency transactions and other.”

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.

*Recent Accounting Pronouncements*

In May 2010, the Financial Accounting Standards Board (“FASB”) issued amended guidance on fair value to largely achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (“IFRS”). The new accounting guidance does not extend the use of fair value but rather provides guidance about how fair value should be determined. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. Amendments that clarify the Board’s intent under existing requirements include: (a) use of the highest and best use and valuation premise concept should be limited to nonfinancial assets; (b) disclosure should include quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; and (c) the fair value of an instrument classified in an entity’s equity should be valued from the perspective of a market participant that holds that instrument as an asset. The amended guidance changes requirements as follows: (a) disclosures are expanded, particularly those relating to fair value measurements based on unobservable inputs, (b) fair value measurements for financial assets and liabilities based on a net position are permitted if market or credit risks are managed on a net basis and other criteria are met, and (c) premiums and discounts are allowed only if a market participant would also include them in the fair value measurement. This accounting update is effective for public companies for interim or annual periods beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this new accounting guidance will impact its accounting policies and practices or disclosures.

In June 2010, the FASB issued amended accounting guidance on the presentation of other comprehensive income in financial statements by requiring comprehensive income to be reported in either a single statement or in two consecutive statements reporting net income and other comprehensive income. The accounting guidance did not change the items that constitute net income or other comprehensive income, the timing of when other comprehensive income is reclassified to net income, or the earnings per share computation. The accounting update requires retrospective application. Public entities will be required to adopt the guidance for fiscal years, and interim

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periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company will comply with the change in presentation of other comprehensive income in the financial statements beginning in the first quarter of 2012.

## 2. STOCK-BASED EMPLOYEE COMPENSATION

The Company has adopted stock compensation plans which provide for grants of share based compensation as incentives and rewards to encourage employees, officers, consultants and directors to contribute towards the long-term success of the Company. Stock-based compensation cost included in personnel expenses in the Unaudited Consolidated Statements of Operations was approximately \$13.1 million and \$15.5 million, and \$27.1 million and \$27.4 million for the three and six months ended June 30, 2011 and 2010, respectively.

During the six months ended June 30, 2011, stock options were exercised for 139,187 shares of common stock with a weighted average exercise price per share of \$27.80. As of June 30, 2011, the aggregate number of stock options outstanding and exercisable was 216,281 shares, with a weighted average exercise price per share of \$20.88 and a weighted average remaining term of 2.8 years.

The following table summarizes the activity of unvested restricted stock, restricted stock units and performance share units ("Share-Based Awards") during the six months ended June 30, 2011.

Share-Based Awards	Shares	Weighted Average Grant Date Fair Value
<b>Unvested at December 31, 2010</b>	<b>1,530,647</b>	<b>\$ 130.93</b>
Granted	117,183	\$ 464.89
Vested	(837,981)	\$ 113.39
Performance Share Units Adjustment	(17,280)	\$ 150.24
Forfeited	(68,866)	\$ 176.55
<b>Unvested at June 30, 2011</b>	<b>723,703</b>	<b>\$ 200.51</b>

As of June 30, 2011, there was \$87.0 million of total future compensation cost related to unvested share-based awards to be recognized over a weighted-average period of 2.1 years.

During the three months ended June 30, 2011, the Company made broad-based grants of 191 restricted stock units ("RSUs") that generally vest over four years. The share-based awards granted had a total grant date fair value of \$0.1 million based upon the grant date fair value per share of \$523.96. During the three months ended March 31, 2011, the Company made broad-based grants of 39,848 RSUs that generally vest after three years. The share based awards granted had a total grant date fair value of \$18.5 million based upon the grant date fair value per share of \$464.79.

In addition, during the three months ended March 31, 2011, the Company granted 77,144 performance share units to certain executives. The performance share units had a total grant date fair value of \$35.9 million based upon the grant date fair value per share of \$464.79. The performance share units are payable in shares of the Company's common stock upon vesting. Subject to certain exceptions for terminations related to a change in control and terminations other than for "cause," for "good reason" or on account of death or disability, the executive officers must continue their service through March 1, 2014 in order to receive any shares. Stock-based compensation for performance share units is recorded based on the estimated probable outcome at the end of the performance period. The actual number of shares to be issued on the vesting date will be determined upon completion of the performance period which ends December 31, 2013. As of June 30, 2011, the estimated number of probable shares to be issued under this 2011 grant is a total of 77,144 shares. If the maximum performance thresholds are met at the end of the performance period, a maximum number of 164,508 total shares could be issued. If the minimum performance thresholds are not met, 22,796 shares would be issued at the end of the performance period.



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2010 Performance Shares Units

During the year ended December 31, 2010, the Company granted 110,430 performance shares units with a grant date fair value of \$26.0 million, based on a weighted average grant date fair value per share of \$235.34. The actual number of shares will be determined upon completion of the performance period which ends December 31, 2012.

At June 30, 2011, there were 93,745 unvested performance share units outstanding, net of actual forfeitures and vesting. As of June 30, 2011, the number of shares estimated to be issued at the end of the performance period is a total of 212,924 shares. If the maximum performance thresholds are met at the end of the performance period, a maximum of 226,505 total shares could be issued.

**3. NET INCOME PER SHARE**

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

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Weighted average number of basic common shares outstanding	49,718	47,791	49,519	47,054
Weighted average dilutive stock options, restricted stock, restricted stock units and performance share units	614	1,394	911	1,554
Assumed conversion of convertible debt	773	1,662	704	2,424
Weighted average number of diluted common and common equivalent shares outstanding	51,105	50,847	51,134	51,032
Anti-dilutive potential common shares	1,649	2,921	1,461	2,815

Anti-dilutive potential common shares for the three and six months ended June 30, 2011 includes approximately 1.1 million shares and 1.2 million shares, respectively, which could be issued under the Company's convertible debt if the Company experiences substantial increases in its common stock price. Under the treasury stock method, the convertible debt will generally have a dilutive impact on net income per share if the Company's average stock price for the period exceeds the conversion price for the convertible debt.

The Company has Conversion Spread Hedges outstanding at June 30, 2011 that would have increased the effective conversion price of the Company's 0.75% Convertible Senior Notes due 2013 (the "2013 Notes") from \$40.38 to \$50.47 per share from the Company's perspective and which were designed to reduce potential dilution

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upon conversion of the debt at maturity (see Note 8). Since the beneficial impact of the Conversion Spread Hedges was anti-dilutive, it was excluded from the calculation of net income per share.

#### 4. INVESTMENTS

The following table summarizes, by major security type, the Company's short-term investments as of June 30, 2011 (in thousands):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Available for sale securities</b>				
U.S. government securities	\$ 586,504	\$ 334	\$ (2)	\$ 586,836
Foreign government securities	665,440	6	(458)	664,988
U.S. agency securities	45,564	23	—	45,587
U.S. corporate notes	40,582	177	(1)	40,758
Total	<u>\$ 1,338,090</u>	<u>\$ 540</u>	<u>\$ (461)</u>	<u>\$ 1,338,169</u>

As of June 30, 2011, foreign government securities included investments in debt securities issued by the governments of Germany, the Netherlands, France and the United Kingdom.

The following table summarizes, by major security type, the Company's short-term investments as of December 31, 2010 (in thousands):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Available for sale securities</b>				
U.S. government securities	\$ 469,116	\$ 158	\$ (66)	\$ 469,208
Foreign government securities	682,841	558	(81)	683,318
U.S. agency securities	109,920	15	(30)	109,905
U.S. corporate notes	40,845	—	(25)	40,820
Total	<u>\$ 1,302,722</u>	<u>\$ 731</u>	<u>\$ (202)</u>	<u>\$ 1,303,251</u>

Long-term investments amounting to approximately \$0.4 million at December 31, 2010 were comprised of corporate notes with a maturity date greater than one year and are included in "Other assets" on the Company's Unaudited Consolidated Balance Sheet. As of June 30, 2011, these investments, amounting to approximately \$0.4 million, were reclassified from long-term investments to short-term investments.

There were no material realized gains or losses related to investments for the three or six months ended June 30, 2011 or 2010.

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**5. FAIR VALUE MEASUREMENTS**

Financial assets and liabilities carried at fair value as of June 30, 2011 are classified in the table below in the categories described below (in thousands):

	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Short-term investments				
U.S. government securities	\$ —	\$ 586,836	\$ —	\$ 586,836
Foreign government securities	—	664,988	—	664,988
U.S. agency securities	—	45,587	—	45,587
U.S. corporate notes	—	40,758	—	40,758
Foreign exchange derivatives	—	463	—	463
Total assets at fair value	<u>\$ —</u>	<u>\$ 1,338,632</u>	<u>\$ —</u>	<u>\$ 1,338,632</u>
<b>LIABILITIES:</b>				
Foreign exchange derivatives	\$ —	\$ 16,468	\$ —	\$ 16,468
Redeemable noncontrolling interests	—	—	67,496	67,496
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 16,468</u>	<u>\$ 67,496</u>	<u>\$ 83,964</u>

Financial assets and liabilities carried at fair value as of December 31, 2010 were classified in the table below in the categories described below (in thousands):

	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Short-term investments				
U.S. government securities	\$ —	\$ 469,208	\$ —	\$ 469,208
Foreign government securities	—	683,318	—	683,318
U.S. agency securities	—	109,905	—	109,905
U.S. corporate notes	—	40,820	—	40,820
Long-term investments	—	394	—	394
Foreign exchange derivatives	—	4,970	—	4,970
Total assets at fair value	<u>\$ —</u>	<u>\$ 1,308,615</u>	<u>\$ —</u>	<u>\$ 1,308,615</u>
<b>LIABILITIES:</b>				
Foreign exchange derivatives	\$ —	\$ 6,995	\$ —	\$ 6,995
Redeemable noncontrolling interests	—	—	45,751	45,751
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 6,995</u>	<u>\$ 45,751</u>	<u>\$ 52,746</u>

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

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

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- Level 2: Inputs are observable, either directly or indirectly. Such prices may be based upon quoted prices for identical or comparable securities in active markets or inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available.

For the Company's short-term investments, a market approach is used for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace. Investments in U.S. Treasury and foreign government securities are considered "Level 2" fair value measurements as of June 30, 2011 and December 31, 2010 because the Company has access to quoted prices, but does not have visibility to the volume and frequency of trading for all of these investments. Fair values for U.S. agency securities and U.S. corporate notes, which are guaranteed by the federal government, are considered "Level 2" fair value measurements because they are obtained from pricing sources for these or comparable instruments.

The Company's derivative instruments are valued using pricing models. Pricing models take into account the contract terms as well as multiple inputs where applicable, such as interest rate yield curves, option volatility and currency rates.

As of June 30, 2011 and December 31, 2010, the Company considers its redeemable noncontrolling interests to represent a "Level 3" fair value measurement that requires a high degree of judgment to determine fair value. The Company estimated such fair value based upon standard valuation techniques using discounted cash flow analysis and industry peer comparable analysis. See Note 11 for further information on redeemable noncontrolling interests.

As of June 30, 2011 and December 31, 2010, the carrying value of the Company's cash and cash equivalents approximated their fair value and consisted primarily of U.S. Treasury money market funds, foreign government securities and bank deposits. Other financial assets and liabilities, including restricted cash, accounts receivable, accrued expenses and deferred merchant bookings are carried at cost which approximates their fair value because of the short-term nature of these items. See Note 4 for information on the carrying value of investments and Note 8 for the estimated fair value of the Company's convertible debt.

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

**Derivatives Not Designated as Hedging Instruments** — The Company is exposed to adverse movements in currency exchange rates as the financial results of its international operations are translated from local currency into U.S. Dollars upon consolidation. The Company's derivative contracts principally address foreign exchange fluctuations for the Euro and British Pound Sterling. As of December 31, 2010, these derivatives resulted in a liability of \$0.2 million and were recorded in "Accrued expenses and other current liabilities" on the Unaudited Consolidated Balance Sheet. As of June 30, 2011, there were no outstanding derivative contracts. Foreign exchange losses of \$0.2 million and \$2.0 million for the three and six months ended June 30, 2011, respectively, and foreign exchanges gains of \$6.1 million and \$8.2 million for the three and six months ended June 30, 2010, respectively, were recorded in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

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Derivatives associated with foreign currency transaction risks resulted in assets of \$0.5 million and \$1.0 million as of June 30, 2011, and December 31, 2010, respectively, and are recorded in “Prepaid expenses and other current assets” in the Unaudited Consolidated Balance Sheets. Foreign exchange losses of \$0.2 million and \$0.1 million for the three and six months ended June 30, 2011, respectively, and foreign exchange losses of \$0.1 million and foreign exchange gains of \$0.4 million for the three and six months ended June 30, 2010, respectively, were recorded in “Foreign currency transactions and other” in the Unaudited Consolidated Statements of Operations.

The settlement of derivative contracts resulted in a net cash outflow of \$3.4 million and \$0.4 million for the six months ended June 30, 2011 and 2010, respectively, and was reported within “Net cash provided by operating activities” on the Unaudited Consolidated Statements of Cash Flows.

**Derivatives Designated as Hedging Instruments** — As of June 30, 2011 and December 31, 2010, the Company had outstanding foreign currency forward contracts for 405 million Euros and 378 million Euros, respectively, to hedge a portion of its net investment in a foreign subsidiary. These contracts are all short-term in nature. Hedge ineffectiveness is assessed and measured based on changes in forward exchange rates. The fair value of these derivatives at June 30, 2011 was a liability of \$16.4 million and is recorded in “Accrued expenses and other current liabilities” in the Unaudited Consolidated Balance Sheet. At December 31, 2010, the net liability of \$2.8 million was recorded as a liability of \$6.8 million in “Accrued expenses and other current liabilities” and as an asset of \$4.0 million in “Prepaid expenses and other current assets” in the Unaudited Consolidated Balance Sheet. A cash outflow of \$33.8 million for the six months ended June 30, 2011, compared to net cash received of \$28.2 million for the six months ended June 30, 2010, was reported within “Net cash used in investing activities” on the Unaudited Consolidated Statements of Cash Flows.

## 6. INTANGIBLE ASSETS AND GOODWILL

The Company’s intangible assets consist of the following (in thousands):

	June 30, 2011			December 31, 2010			Amortization Period	Weighted Average Useful Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount		
Supply and distribution agreements	\$ 278,005	\$ (92,580)	\$ 185,425	\$ 264,491	\$ (76,823)	\$ 187,668	10 - 13 years	12 years
Technology	25,044	(24,402)	642	23,549	(22,119)	1,430	3 years	3 years
Patents	1,638	(1,376)	262	1,638	(1,352)	286	15 years	15 years
Customer lists	21,569	(19,716)	1,853	20,338	(17,512)	2,826	2 years	2 years
Internet domain names	4,458	(327)	4,131	1,853	(126)	1,727	2 – 20 years	10 years
Trade names	55,475	(18,940)	36,535	53,099	(15,064)	38,035	5 – 20 years	11 years
Other	345	(308)	37	344	(286)	58	3 – 10 years	4 years
Total intangible assets	<u>\$ 386,534</u>	<u>\$ (157,649)</u>	<u>\$ 228,885</u>	<u>\$ 365,312</u>	<u>\$ (133,282)</u>	<u>\$ 232,030</u>		

Intangible assets with determinable lives are primarily amortized on a straight-line basis. Intangible asset amortization expense was approximately \$8.6 million and \$6.8 million for the three months ended June 30, 2011 and 2010, respectively, and approximately \$16.9 million and \$12.6 million for the six months ended June 30, 2011 and 2010, respectively.

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The estimated amortization expense for intangible assets for the remainder of 2011, the annual expense for the next five years, and the expense thereafter is expected to be as follows (in thousands):

2011	\$	16,539
2012		31,162
2013		29,863
2014		29,789
2015		27,001
2016		24,429
Thereafter		70,102
	\$	<u>228,885</u>

The change in goodwill for the six months ended June 30, 2011 consists of the following (in thousands):

Balance at December 31, 2010	\$	510,894
Currency translation adjustments		18,700
Balance at June 30, 2011	\$	<u>529,594</u>

**7. OTHER ASSETS**

Other assets at June 30, 2011 and December 31, 2010 consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Deferred debt issuance costs	\$ 8,463	\$ 9,576
Other	8,694	4,842
Total	<u>\$ 17,157</u>	<u>\$ 14,418</u>

Deferred debt issuance costs arose from (i) the Company's issuance, in March 2010, of \$575.0 million aggregate principal amount of 1.25% Convertible Senior Notes due 2015 (the "2015 Notes"); (ii) a \$175.0 million revolving credit facility entered into in September 2007; and (iii) the Company's issuance, in September 2006, of \$172.5 million aggregate principal amount of 2013 Notes. Deferred debt issuance costs are being amortized using the effective interest rate method over the term of approximately five years, except for the 2013 Notes which were amortized over their term of seven years. The period of amortization for the Company's debt issue costs was determined at inception of the related debt agreements based upon the stated maturity date or the first stated put date, if earlier. Unamortized debt issuance costs written off to interest expense in the three and six months ended June 30, 2010 resulting from conversions of convertible debt amounted to \$0.4 million and \$1.0 million, respectively. Unamortized debt issuance costs written off in the three and six months ended June 30, 2011 for debt conversions were insignificant.

**8. DEBT**

***Revolving Credit Facility***

In September 2007, the Company entered into a \$175.0 million five-year committed revolving credit facility with a group of lenders, which is secured, subject to certain exceptions, by a first-priority security interest on substantially all of the Company's assets and related intangible assets located in the United States. In addition, the Company's obligations under the revolving credit facility are guaranteed by substantially all of the assets and related intangible assets of the Company's material direct and indirect domestic and foreign subsidiaries. Borrowings under the revolving credit facility will bear interest, at the Company's option, at a rate per annum equal to the greater of (a)

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JPMorgan Chase Bank, National Association's prime lending rate and (b) the federal funds rate plus ½ of 1%, plus an applicable margin ranging from 0.25% to 0.75%; or at an adjusted LIBOR for the interest period in effect for such borrowing plus an applicable margin ranging from 1.25% to 1.75%. Undrawn balances available under the revolving credit facility are subject to commitment fees at the applicable rate ranging from 0.25% to 0.375%.

The revolving credit facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same-day notice, referred to as swingline loans, which are available in U.S. Dollars, Euros, Pound Sterling and any other foreign currency agreed to by the lenders. The proceeds of loans made under the facility will be used for working capital and general corporate purposes. At both June 30, 2011 and December 31, 2010, there were no borrowings outstanding under the facility, and approximately \$1.6 million of letters of credit were issued under the revolving credit facility.

**Convertible Debt**

Convertible debt as of June 30, 2011 consisted of the following (in thousands):

<b>June 30, 2011</b>	<b>Outstanding Principal Amount</b>	<b>Unamortized Debt Discount</b>	<b>Carrying Value</b>
1.25% Convertible Senior Notes due March 2015	\$ 575,000	\$ (88,222)	\$ 486,778

Convertible debt as of December 31, 2010 consists of the following (in thousands):

<b>December 31, 2010</b>	<b>Outstanding Principal Amount</b>	<b>Unamortized Debt Discount</b>	<b>Carrying Value</b>
1.25% Convertible Senior Notes due March 2015	\$ 575,000	\$ (98,770)	\$ 476,230
0.75% Convertible Senior Notes due September 2013	213	(38)	175
Outstanding convertible debt	\$ 575,213	\$ (98,808)	\$ 476,405

Based upon the closing price of the Company's common stock for the prescribed measurement period during the three months ended December 31, 2010, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes were convertible at the option of the holders as of December 31, 2010, and accordingly were classified as a current liability as of that date. The remaining outstanding principal amount of the 2013 Notes was converted during the three months ended June 30, 2011.

The contingent conversion threshold for the prescribed measurement period during the three months ended June 30, 2011 was exceeded for the 2015 Notes. Therefore, the 2015 Notes are convertible at the option of the holders. Accordingly, the Company reported the carrying value of the 2015 Notes as a current liability as of June 30, 2011. Since these notes are convertible at the option of the holder and the principal amount is required to be paid in cash, the difference between the principal amount and carrying value is reflected as convertible debt in the mezzanine section on the Company's Unaudited Consolidated Balance Sheets. Therefore, with respect to the 2015 Notes, the Company reclassified \$88.2 million from additional paid-in-capital to convertible debt in mezzanine on the Unaudited Consolidated Balance Sheet as of June 30, 2011. The determination of whether or not the 2015 Notes are convertible must continue to be performed on a quarterly basis. Consequently, the 2015 Notes may not be convertible in future quarters, and therefore may again be classified as long-term debt, if the contingent conversion threshold is not met in such quarters.

In the six months ended June 30, 2011, the Company delivered cash of \$0.2 million to repay the principal amount and issued 4,869 shares of its common stock in satisfaction of the conversion value in excess of the principal amount for convertible debt that was converted prior to maturity. In the six months ended June 30, 2010, the Company delivered cash of \$145.8 million to repay the principal amount and issued 2,797,589 shares of its common

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stock and delivered cash of \$27.6 million in satisfaction of the conversion value in excess of the principal amount for convertible debt that was converted prior to maturity.

As of June 30, 2011 and December 31, 2010, the estimated market value of the outstanding convertible debt was approximately \$1.0 billion and \$0.9 billion, respectively. Fair value was estimated based upon actual trades at the end of the reporting period or the most recent trade available as well as the Company's stock price at the end of the reporting period. A substantial portion of the market value of the Company's debt in excess of the outstanding principal amount relates to the conversion premium on the bonds.

### Description of Senior Notes

In March 2010, the Company issued in a private placement \$575.0 million aggregate principal amount of Convertible Senior Notes due March 15, 2015, with an interest rate of 1.25% (the "2015 Notes"). The Company paid \$12.9 million in debt issuance costs during the three months ended March 31, 2010, related to this offering. The 2015 Notes are convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately \$303.06 per share. The 2015 Notes are convertible, at the option of the holder, prior to March 15, 2015 upon the occurrence of specified events, including, but not limited to a change in control, or if the closing sales price of the Company's common stock for at least 20 consecutive trading days in the period of the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 150% of the applicable conversion price in effect for the notes on the last trading day of the immediately preceding quarter. In the event that all or substantially all of the Company's common stock is acquired on or prior to the maturity of the 2015 Notes in a transaction in which the consideration paid to holders of the Company's common stock consists of all or substantially all cash, the Company would be required to make additional payments in the form of additional shares of common stock to the holders of the 2015 Notes in aggregate value ranging from \$0 to approximately \$132.7 million depending upon the date of the transaction and the then current stock price of the Company. As of December 15, 2014, holders will have the right to convert all or any portion of the 2015 Notes. The 2015 Notes may not be redeemed by the Company prior to maturity. The holders may require the Company to repurchase the 2015 Notes for cash in certain circumstances. Interest on the 2015 Notes is payable on March 15 and September 15 of each year.

In 2006, the Company issued in a private placement \$172.5 million aggregate principal amount of Convertible Senior Notes due September 30, 2013, with an interest rate of 0.75% (the "2013 Notes"). The 2013 Notes were convertible, subject to certain conditions, into the Company's common stock at a conversion price of approximately \$40.38 per share. The 2013 Notes were not redeemable by the Company prior to maturity.

In 2006, the Company entered into hedge transactions relating to the potential dilution of the Company's common stock upon conversion of the 2013 Notes (the "Conversion Spread Hedges"). Under the Conversion Spread Hedges, the Company is entitled to purchase from Goldman Sachs and Merrill Lynch approximately 4.3 million shares of the Company's common stock (the number of shares underlying the 2013 Notes) at a strike price of \$40.38 per share (subject to adjustment in certain circumstances) in 2013, and the counterparties are entitled to purchase from the Company approximately 4.3 million shares of the Company's common stock at a strike price of \$50.47 per share (subject to adjustment in certain circumstances) in 2013. The Conversion Spread Hedges are separate transactions entered into by the Company with the counterparties and are not part of the terms of the 2013 Notes. The Conversion Spread Hedges did not immediately hedge against the associated dilution from early conversions of the 2013 Notes prior to their stated maturities. Therefore, upon early conversion of the 2013 Notes, the Company has delivered any related conversion premium in shares of stock or a combination of cash and shares. However, the hedging counterparties were not obligated to deliver the Company shares or cash that would offset the dilution associated with the early conversion activity. Because of this timing difference, the number of shares, if any, that the Company receives from its Conversion Spread Hedges can differ materially from the number of shares that it was required to deliver to the holders of the 2013 Notes upon their early conversion. The actual number of shares to be received will depend upon the Company's stock price on the date the Conversion Spread Hedges are exercisable, which coincides with the scheduled maturity of the 2013 Notes.



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Accounting guidance requires that cash-settled convertible debt, such as the Company's convertible senior notes, be separated into debt and equity components at issuance and a value to be assigned to each. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value, representing the value assigned to the equity component, is recorded as a debt discount. Debt discount is amortized using the effective interest method over the period from origination date through the stated maturity date. The Company estimated the straight debt borrowing rates at debt origination to be 5.89% for the 2015 Notes and 8.0% for the 2013 Notes. The yield to maturity was estimated at an at-market coupon priced at par.

For the three months ended June 30, 2011 and 2010, the Company recognized interest expense of \$7.6 million and \$8.6 million, respectively, related to convertible notes. Interest expense was comprised of \$1.8 million and \$1.9 million, respectively, for the contractual coupon interest, \$5.3 million and \$6.2 million, respectively, related to the amortization of debt discount and \$0.5 million for both periods related to the amortization of debt issuance costs. In addition, unamortized debt issuance costs written off to interest expense related to debt converted prior to maturity in 2010 amounted to approximately \$0.4 million, while costs associated with 2011 debt conversions were insignificant. The effective interest rate for the three months ended June 30, 2011 and 2010 was 6.3% and 6.8%, respectively.

For the six months ended June 30, 2011 and 2010, the Company recognized interest expense of \$15.1 million and \$12.6 million, respectively, related to convertible notes. Interest expense was comprised of \$3.6 million and \$2.4 million, respectively, for the contractual coupon interest, \$10.5 million and \$9.5 million, respectively, related to the amortization of debt discount and \$1.0 million and \$0.7 million, respectively, related to the amortization of debt issuance costs. In addition, unamortized debt issuance costs written off to interest expense related to debt converted prior to maturity in 2010 amounted to approximately \$1.0 million, while costs associated with 2011 debt conversions were insignificant. The effective interest rate for the six months ended June 30, 2011 and 2010 was 6.3% and 7.1%, respectively.

Debt discount and debt issuance costs are amortized through the stated maturity dates of the respective debt.

In addition, if the Company's convertible debt is redeemed or converted prior to maturity, a gain or loss on extinguishment will be recognized. The gain or loss is the difference between the fair value of the debt component immediately prior to extinguishment and its carrying value. To estimate the fair value at each conversion date, the Company used an applicable LIBOR rate plus an applicable credit default spread based upon the Company's credit rating at the respective conversion dates. In the three and six months ended June 30, 2010, the Company recognized losses of \$2.9 million (\$1.7 million after tax) and \$8.1 million (\$4.9 million after tax), respectively, in "Foreign currency transactions and other" in the Unaudited Consolidated Statement of Operations. The losses recognized for the three and six months ended June 30, 2011 for debt conversions were insignificant.

## **9. TREASURY STOCK**

As of June 30, 2011, the Company has a remaining amount from all authorizations granted by the Board of Directors of \$459.2 million to purchase its common stock. The Company may make additional repurchases of shares under its stock repurchase programs, depending on prevailing market conditions, alternate uses of capital and other factors. Whether and when to initiate and/or complete any purchase of common stock and the amount of common stock purchased will be determined in the Company's complete discretion.

The Company's Board of Directors has also given the Company the general authorization to repurchase shares of its common stock to satisfy employee withholding tax obligations related to stock-based compensation. The Company repurchased 349,667 shares and 83,224 shares at aggregate costs of \$158.7 million and \$19.3 million in the six months ended June 30, 2011 and 2010, respectively, to satisfy employee withholding taxes related to stock-based compensation.

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As of June 30, 2011, there were approximately 7.8 million shares of the Company's common stock held in treasury.

In the first quarter of 2010, the Company's Board of Directors authorized the repurchase of up to \$500 million of the Company's common stock, including the approval to purchase up to \$100 million using proceeds from the issuance of the 2015 Notes. The Company repurchased 0.4 million shares of its common stock at an aggregate cost of approximately \$100 million in the three months that ended March 31, 2010. During the three months ended June 30, 2010, the Company repurchased 32,487 shares of its common stock at an aggregate cost of approximately \$6.1 million.

## 10. INCOME TAXES

Income tax expense includes U.S. and international income taxes, determined using an estimate of the Company's annual effective tax rate. A deferred tax liability is recognized for all taxable temporary differences, and a deferred tax asset is recognized for all deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is recognized if it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company recognizes income tax expense related to income generated outside of the United States based upon the applicable tax rates and tax laws of the foreign countries in which the income is generated. During the three and six months ended June 30, 2011 and 2010, the substantial majority of the Company's foreign-sourced income has been generated in the Netherlands and the United Kingdom. Income tax expense for the three and six months ended June 30, 2011 and 2010 differs from the expected tax expense at the U.S. statutory rate of 35%, primarily due to lower foreign tax rates, partially offset by state income taxes and certain non-deductible expenses. In addition, the resolution of an uncertain tax position during the three months ended June 30, 2011 contributed to the reduced effective tax rate.

Following the conclusion of an audit, the Company reversed a reserve of approximately \$12.5 million in the three months ended June 30, 2011 for unrecognized tax benefits attributable to tax positions taken in 2010. The Company does not expect further significant changes in the amount of unrecognized tax benefits during the next twelve months.

Effective January 1, 2010, the Netherlands modified its corporate income tax law related to income generated from qualifying "innovative" activities ("Innovation Box Tax"). Earnings that qualify for the Innovation Box Tax will effectively be taxed at the rate of 5% rather than the Dutch statutory rate of 25%. Booking.com obtained a ruling from the Dutch tax authorities in February 2011 confirming that a portion of its earnings ("qualifying earnings") is eligible for Innovation Box Tax treatment. The ruling from the Dutch tax authorities is valid from January 1, 2010 through December 31, 2013 (the "Initial Period"). In this ruling, the Dutch tax authorities require that the Innovation Box Tax benefit be phased in over a multi-year period. The amount of qualifying earnings expressed as a percentage of the total pretax earnings in the Netherlands will vary depending upon the level of total pretax earnings that is achieved in any given year.

In order to be eligible for Innovation Box Tax treatment, Booking.com must, among other things, apply for and obtain a research and development ("R&D") certificate from a Dutch governmental agency every six months confirming that the activities that Booking.com intends to be engaged in over the subsequent six month period are "innovative." Should Booking.com fail to secure such a certificate in any such period — for example, because the governmental agency does not view Booking.com's new or anticipated activities as "innovative" — or should this agency determine that the activities contemplated to be performed in a prior year were not performed as contemplated or did not comply with the agency's requirements, Booking.com may lose its certificate and, as a result, the Innovation Box Tax benefit may be reduced or eliminated.

After the Initial Period, Booking.com intends to reapply for continued Innovation Box Tax treatment for future periods. There can be no assurance that Booking.com's application will be accepted, or that the amount of qualifying earnings or applicable tax rates will not be reduced at that time. In addition, there can be no assurance that the tax law will not change in 2011 and/or future years resulting in a reduction or elimination of the tax benefit.

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The Innovation Box Tax did not have a material impact on the Company's 2010 results. The Company currently expects the impact of the Innovation Box Tax to reduce its consolidated effective income tax rate for 2011 by approximately two to four percentage points.

The Company has significant deferred tax assets, resulting principally from domestic net operating loss carryforwards ("NOLs"). At December 31, 2010, the Company had approximately \$2.7 billion of NOLs for U.S. federal income tax purposes, comprised of \$0.6 billion of NOLs generated from operating losses and approximately \$2.1 billion of NOLs generated from equity-related transactions, including equity-based compensation and stock warrants, mainly expiring from December 31, 2019 to December 31, 2021. The utilization of these NOLs is subject to limitation under Section 382 of the Internal Revenue Code and is also dependent on the Company's ability to generate sufficient future taxable income.

Section 382 imposes limitations on the availability of a company's net operating losses after a more than 50 percentage point ownership change occurs. The Section 382 limitation is based upon certain conclusions pertaining to the dates of ownership changes and the value of the Company on the dates of the ownership changes. As a result of a study, it was determined that ownership changes, as defined in Section 382, occurred in 2000 and 2002. The amount of the Company's net operating losses incurred prior to each ownership change is limited based on the value of the Company on the respective dates of ownership change. As of the beginning of the year, it is estimated that the effect of Section 382 will generally limit the total cumulative amount of net operating loss available to offset future taxable income to approximately \$1.3 billion, comprised of \$0.6 billion of NOLs generated from operating losses which have been fully reflected in the Unaudited Consolidated Financial Statements and \$0.7 billion of NOLs generated from equity-related transactions. At December 31, 2010, the Company had additional federal tax benefits of \$87.8 million, generated since January 1, 2006, related to equity transactions that are not recorded in our deferred tax asset accounts. In accordance with accounting guidance, tax benefits related to equity transactions will be recognized as a credit to additional paid-in capital if and when they are realized by reducing the Company's current income tax liability. Pursuant to Section 382, future ownership changes, if any, could further limit this amount.

The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of these deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. The Company considers many factors when assessing the likelihood of future realization of the deferred tax assets, including its recent cumulative earnings experience by taxing jurisdiction, expectations of future income, the carryforward periods available for tax reporting purposes, and other relevant factors. The deferred tax asset at June 30, 2011 and December 31, 2010 amounted to \$210.5 million and \$222.0 million, net of the valuation allowance recorded, respectively.

The Company has recorded a non-current deferred tax liability in the amount of \$54.7 million and \$56.4 million at June 30, 2011 and December 31, 2010, respectively, primarily related to the assignment of estimated fair value to certain purchased identifiable intangible assets associated with various international acquisitions.

As an international corporation providing hotel reservation services available around the world, the Company is subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and other tax liabilities. Although the Company believes that its tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in the Company's historical income tax provisions and accruals. To date, we have been audited in several taxing jurisdictions with no significant adjustments as a result. We were recently notified that the Internal Revenue Service will initiate an audit of our income taxes in the third quarter of 2011.

## 11. REDEEMABLE NONCONTROLLING INTERESTS

On May 18, 2010, the Company, through its wholly-owned subsidiary, Priceline.com International Limited (“PIL”), paid \$108.5 million, net of cash acquired, to purchase a controlling interest of the outstanding equity of TravelJigsaw Holdings Limited and its operating subsidiary, TravelJigsaw Limited (collectively, “TravelJigsaw”), a Manchester, UK-based international rental car reservation service.

Certain key members of TravelJigsaw’s management team retained a noncontrolling ownership interest in TravelJigsaw Holdings Limited. In addition, certain key members of the management team of Booking.com purchased a 3% ownership interest in TravelJigsaw from PIL in June 2010 (together with TravelJigsaw management’s investment, the “Redeemable Shares”). The holders of the Redeemable Shares have the right to put their shares to PIL and PIL will have the right to call the shares in each case at a purchase price reflecting the fair value of the Redeemable Shares at the time of exercise. Subject to certain exceptions, one-third of the Redeemable Shares have been or will be, as the case may be, subject to the put and call options in each of 2011, 2012 and 2013, respectively, during specified option exercise periods. In April 2011, in connection with the exercise of March 2011 call and put options, PIL repurchased a portion of the shares underlying redeemable noncontrolling interests for an aggregate purchase price of approximately \$13 million. As a result of the April 2011 purchase, the redeemable noncontrolling interests in TravelJigsaw Holdings Limited were reduced from 24.4% to 19.0%.

Redeemable noncontrolling interests are measured at fair value, both at the date of acquisition and subsequently at each reporting period. The redeemable noncontrolling interests are reported on the Consolidated Balance Sheet in mezzanine equity in “Redeemable noncontrolling interests.”

A reconciliation of redeemable noncontrolling interests for the six months ended June 30, 2011 is as follows (in thousands):

	2011
<b>Balance, December 31, 2010</b>	\$ 45,751
Net loss attributable to redeemable noncontrolling interests	(867)
Fair value adjustments(1)	33,740
Purchase of subsidiary shares at fair value(1)	(12,986)
Currency translation adjustments	1,858
<b>Balance, June 30, 2011</b>	<u>\$ 67,496</u>

(1) The estimated fair value was based upon standard valuation techniques using discounted cash flow analysis and industry peer comparable analysis.

## 12. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The table below provides the detail of comprehensive income for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net income applicable to common stockholders	\$ 256,368	\$ 114,957	\$ 361,158	\$ 168,832
Net unrealized gain (loss) on investment securities	99	34	(485)	250
Currency translation gain (loss)	9,017	(46,939)	52,850	(91,923)
	<u>\$ 265,484</u>	<u>\$ 68,052</u>	<u>\$ 413,523</u>	<u>\$ 77,159</u>

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The table below provides the balances for each classification of accumulated other comprehensive income (loss) as of June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Foreign currency translation adjustments (1)	\$ 19,443	\$ (33,407)
Net unrealized gain on investment securities (2)	33	518
Accumulated other comprehensive income (loss)	<u>\$ 19,476</u>	<u>\$ (32,889)</u>

- (1) Includes net losses from fair value adjustments at June 30, 2011 of \$12,804 after tax (\$20,225 before tax) and net gains from fair value adjustments at December 31, 2010 of \$15,827 after tax (\$27,138 before tax) associated with net investment hedges (see Note 5). The remaining balance in currency translation adjustments excludes income taxes due to the Company's practice and intention to reinvest the earnings of its foreign subsidiaries in those operations.
- (2) The unrealized gain before tax at June 30, 2011 and December 31, 2010 was \$105 and \$714, respectively.

### 13. COMMITMENTS AND CONTINGENCIES

#### *Litigation Related to Hotel Occupancy and Other Taxes*

The Company and certain third-party defendant online travel companies are currently involved in approximately fifty lawsuits, including certified and putative class actions, brought by or against states, cities and counties over issues involving the payment of hotel occupancy and other taxes (i.e., state and local sales tax) and the Company's "merchant" hotel business. The Company's subsidiaries Lowestfare.com LLC and Travelweb LLC are named in some but not all of these cases. Generally, each complaint alleges, among other things, that the defendants violated each jurisdiction's respective hotel occupancy tax ordinance with respect to the charges and remittance of amounts to cover taxes under each law. Each complaint typically seeks compensatory damages, disgorgement, penalties available by law, attorneys' fees and other relief. The Company is also involved in one consumer lawsuit relating to, among other things, the payment of hotel occupancy taxes and service fees. In addition, approximately sixty municipalities or counties, and at least six states, have initiated audit proceedings (including proceedings initiated by more than forty municipalities in California), issued proposed tax assessments or started inquiries relating to the payment of hotel occupancy and other taxes (i.e., state and local sales tax). Additional state and local jurisdictions are likely to assert that the Company is subject to, among other things, hotel occupancy and other taxes (i.e., state and local sales tax) and could seek to collect such taxes, retroactively and/or prospectively.

With respect to the principal claims in these matters, the Company believes that the ordinances at issue do not apply to the service it provides, namely the facilitation of reservations, and, therefore, that it does not owe the taxes that are claimed to be owed. Rather, the Company believes that the ordinances at issue generally impose hotel occupancy and other taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations. In addition, in many of these matters, municipalities have asserted claims for "conversion" — essentially, that the Company has collected a tax and wrongfully "pocketed" those tax dollars — a claim that the Company believes is without basis and has vigorously contested. The municipalities that are currently involved in litigation and other proceedings with the Company, and that may be involved in future proceedings, have asserted contrary positions and will likely continue to do so. From time to time, the Company has found it expedient to settle, and may in the future agree to settle, claims pending in these matters without conceding that the claims at issue are meritorious or that the claimed taxes are in fact due to be paid.

In connection with some of these tax audits and assessments, the Company may be required to pay any assessed taxes, which amounts may be substantial, prior to being allowed to contest the assessments and the applicability of the ordinances in judicial proceedings. This requirement is commonly referred to as "pay to play" or "pay first." For example, the City of San Francisco assessed the Company approximately \$3.4 million (an amount

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that includes interest and penalties) relating to hotel occupancy taxes, which the Company paid in July 2009. Payment of these amounts, if any, is not an admission that the Company believes it is subject to such taxes and, even if such payments are made, the Company intends to continue to assert its position vigorously. The Company has successfully argued against a “pay first” requirement asserted in another California proceeding.

Litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. For example, in October 2009, a jury in a San Antonio class action found that the Company and the other online travel companies that are defendants in the lawsuit “control” hotels for purposes of the local hotel occupancy tax ordinances at issue and are, therefore, subject to the requirements of those ordinances. On July 1, 2011, the court issued findings of fact and conclusions of law in connection with this case. In addition to ruling that hotel tax was due from defendants on the markup and service fee, the court held defendants liable for penalties and interest per the terms of each city’s applicable ordinance, but capped at fifteen (15%) of the total amount of unpaid taxes at the time of entry of judgment; ordinances without a penalty provision are assessed a fifteen (15%) penalty under the Texas Tax Code. The Company expects supplemental findings of fact and conclusions of law to be issued by the court, followed by a judgment. The Company intends to vigorously pursue an appeal of the judgment on legal and factual grounds.

An unfavorable outcome or settlement of pending litigation may encourage the commencement of additional litigation, audit proceedings or other regulatory inquiries. In addition, an unfavorable outcome or settlement of these actions or proceedings could result in substantial liabilities for past and/or future bookings, including, among other things, interest, penalties, punitive damages and/or attorney fees and costs. There have been, and will continue to be, substantial ongoing costs, which may include “pay first” payments, associated with defending the Company’s position in pending and any future cases or proceedings. An adverse outcome in one or more of these unresolved proceedings could have a material adverse effect on the Company’s business and results of operations and could be material to the Company’s earnings or cash flow in any given operating period.

To the extent that any tax authority succeeds in asserting that the Company has a tax collection responsibility, or the Company determines that it has such a responsibility, with respect to future transactions, the Company may collect any such additional tax obligation from its customers, which would have the effect of increasing the cost of hotel room reservations to its customers and, consequently, could make the Company’s hotel service less competitive (i.e., versus the websites of other online travel companies or hotel company websites) and reduce hotel reservation transactions; alternatively, the Company could choose to reduce the compensation for its services on “merchant” hotel transactions. Either step could have a material adverse effect on the Company’s business and results of operations.

In many of the judicial and other proceedings initiated to date, municipalities seek not only historical taxes that are claimed to be owed on the Company’s gross profit, but also, among other things, interest, penalties, punitive damages and/or attorney fees and costs. Therefore, any liability associated with hotel occupancy tax matters is not constrained to the Company’s liability for tax owed on its historical gross profit, but may also include, among other things, penalties, interest and attorneys’ fees. To date, the majority of the taxing jurisdictions in which the Company facilitates hotel reservations have not asserted that taxes are due and payable on the Company’s U.S. “merchant” hotel business. With respect to municipalities that have not initiated proceedings to date, it is possible that they will do so in the future or that they will seek to amend their tax statutes and seek to collect taxes from the Company only on a prospective basis.

As a result of this litigation and other attempts by jurisdictions to levy similar taxes, the Company has established a reserve for the potential resolution of issues related to hotel occupancy and other taxes in the amount of approximately \$29 million at June 30, 2011 compared to approximately \$26 million at December 31, 2010 (which includes, among other things, amounts related to the litigation in San Antonio). The reserve is based on the Company’s reasonable estimate, and the ultimate resolution of these issues may be less or greater, potentially significantly, than the liabilities recorded.

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*Developments in the Quarter ending June 30, 2011*

In the quarter ending June 30, 2011, one new case was commenced. County of Volusia, et al. v. Priceline.com, Inc., et al. (Circuit Court of Volusia County, Florida) was filed on April 20, 2011.

Two cases were dismissed in their entirety during the quarter. In Horry County, South Carolina, et al. v. Hotels.com, LP, et al. (Court of Common Pleas, Horry County, South Carolina; filed in February 2007), the parties reached an agreement resolving the case in March 2011; the matter was dismissed with prejudice pursuant to the agreement on May 16, 2011. In County of Nassau, New York v. Hotels.com, LP, et al. (U.S. District Court for the Eastern District of New York; filed in October 2006), the case was dismissed without prejudice on May 13, 2011, because of a lack of complete diversity between the parties.

The Company reached agreements resolving claims in two cases. In July 2011, the parties executed a settlement agreement in City of Myrtle Beach, South Carolina v. Hotels.com, LP, et al. (Court of Common Pleas for Horry County, South Carolina; filed in February 2007). The Company also reached an agreement resolving the claims in Town of Hilton Head Island, South Carolina v. Hotels.com, LP, et al. (Court of Common Pleas for Beaufort County, South Carolina; filed in April 2010). The Company expects these cases to be dismissed pursuant to these agreements shortly.

In City of Atlanta, Georgia v. Hotels.com L.P., et al. (Superior Court of Fulton County, Georgia; filed in March 2006), on May 16, 2011, the Georgia Supreme Court affirmed the lower court's ruling that the City was not entitled to back taxes. The City has recently submitted an amended complaint in the trial court adding a claim for breach of trust and is seeking to renew its pursuit of claims for conversion, punitive damages and attorneys' fees. Defendants believe the matter was completely resolved by the Georgia Supreme Court and are opposing the City's effort to reopen the lawsuit.

In City of Birmingham, Alabama, et al. v. Orbitz, Inc., et al. (Circuit Court of Jefferson County, Alabama; filed in December, 2009), the court granted Defendants' motion for summary judgment. On May 3, 2011, plaintiffs filed a notice of appeal with the Alabama Supreme Court.

In addition to these developments, a discussion of the remaining legal proceedings listed below can be found in the section titled "Legal Proceedings" of the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The Company intends to vigorously defend against the claims in all of the proceedings described below.

*Statewide Class Actions and Putative Class Actions*

Such actions include:

- City of Los Angeles, California v. Hotels.com, Inc., et al. (California Superior Court, Los Angeles County; filed in December 2004)
- City of Rome, Georgia, et al. v. Hotels.com, L.P., et al. (U.S. District Court for the Northern District of Georgia; filed in November 2005)
- City of San Antonio, Texas v. Hotels.com, L.P., et al. (U.S. District Court for the Western District of Texas; filed in May 2006)
- City of Jacksonville, Florida, et al. v. Hotels.com, L.P., et al. (Circuit Court, Fourth Judicial Circuit, Duval County, Florida; filed in July 2006)
- City of Gallup, New Mexico v. Hotels.com, L.P., et al. (U.S. District Court for the District of New Mexico; filed in July 2007)

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- [City of Goodlettsville, Tennessee, et al. v. priceline.com Incorporated, et al.](#) (U.S. District Court for the Middle District of Tennessee; filed in June 2008)
- [Township of Lyndhurst, New Jersey v. priceline.com Incorporated, et al.](#) (U.S. District Court for the District of New Jersey; filed in June 2008); (U.S. Court of Appeals for the Third Circuit; appeal filed in April 2009)
- [Pine Bluff Advertising and Promotion Commission, Jefferson County, Arkansas, et al. v. Hotels.com, LP, et al.](#) (Circuit Court of Jefferson County, Arkansas; filed in September 2009)
- [County of Lawrence, Pennsylvania v. Hotels.com, L.P., et al.](#) (Court of Common Pleas of Lawrence County, Pennsylvania; filed Nov. 2009); (Commonwealth Court of Pennsylvania; appeal filed in November 2010)

### *Actions Filed on Behalf of Individual Cities, Counties and States*

Such actions include:

- [City of Findlay, Ohio v. Hotels.com, L.P., et al.](#) (U.S. District Court for the Northern District of Ohio; filed in October 2005); and [City of Columbus, Ohio, et al. v. Hotels.com, L.P., et al.](#) (U.S. District Court for the Southern District of Ohio; filed in August, 2006); (U.S. District Court for the Northern District of Ohio)
- [City of Chicago, Illinois v. Hotels.com, L.P., et al.](#) (Circuit Court of Cook County Illinois; filed in November 2005)
- [City of San Diego, California v. Hotels.com L.P., et al.](#) (California Superior Court, San Diego County; filed in September 2006) (Superior Court of California, Los Angeles County)
- [City of Atlanta, Georgia v. Hotels.com L.P., et al.](#) (Superior Court of Fulton County, Georgia; filed in March 2006); (Court of Appeals of the State of Georgia; appeal filed in January 2007); (Georgia Supreme Court; further appeal filed in December 2007)
- [Wake County, North Carolina v. Hotels.com, LP, et al.](#) (General Court of Justice, Superior Court Division, Wake County, North Carolina; filed in November 2006); [Dare County, North Carolina v. Hotels.com, LP, et al.](#) (General Court of Justice, Superior Court Division, Dare County, North Carolina; filed in January 2007); [Buncombe County, North Carolina v. Hotels.com, LP, et al.](#) (General Court of Justice, Superior Court Division, Buncombe County, North Carolina; filed in February 2007); [Mecklenburg County, North Carolina v. Hotels.com LP, et al.](#) (General Court of Justice, Superior Court Division, Mecklenburg County, North Carolina; filed in January 2008)
- [City of Branson, Missouri v. Hotels.com, LP., et al.](#) (Circuit Court of Greene County, Missouri; filed in December 2006)
- [City of Myrtle Beach, South Carolina v. Hotels.com, LP, et al.](#) (Court of Common Pleas, Horry County, South Carolina; filed in February 2007)
- [City of Houston, Texas v. Hotels.com, LP., et al.](#) (District Court of Harris County, Texas; filed in March 2007)
- [City of Oakland, California v. Hotels.com, L.P., et al.](#) (U.S. District Court for the Northern District of California; filed in June 2007); (U.S. Court of Appeals for the Ninth Circuit; appeal filed in December 2007)
- [County of Genesee, Michigan, et al. v. Hotels.com LP, et al.](#) (Circuit Court for the County of Ingham, Michigan; filed in February 2009)
- [City of Bowling Green, Kentucky v. Hotels.com LP et al.](#) (Warren Cir. Ct., Kentucky, Div. 1; filed in March 2009); (Commonwealth of Kentucky Court of Appeals; appeal filed in April 2010)
- [St. Louis County, Missouri v. Prestige Travel, Inc. et al.](#) (Circuit Court of St. Louis County, Missouri; filed in July 2009)
- [The Village of Rosemont, Illinois v. Priceline.com, Inc., et al.](#) (U.S. District Court for the Northern District of Illinois; filed in July 2009)
- [Palm Beach County, Florida v. Priceline.com, Inc., et al.](#) (Circuit Court for Palm Beach County, Florida; filed in July 2009)



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- [Leon County, et al. v. Expedia, Inc., et al.](#) (Second Judicial Circuit Court for Leon County, Florida; filed Nov. 2009); [Leon County v. Expedia, Inc. et al.](#) (Second Judicial Circuit Court for Leon County, Florida; filed in December 2009)
- [City of Birmingham, Alabama, et al. v. Orbitz, Inc., et al.](#) (Circuit Court of Jefferson County, Alabama; filed in December 2009)
- [Town of Hilton Head Island, South Carolina v. Hotels.com, LP, et al.](#) (Court of Common Pleas, Fourteenth Judicial Circuit, Beaufort County, South Carolina; filed in April 2010)
- [Baltimore County, Maryland v. Priceline.com, Inc., et al.](#) (U.S. District Court for the District of Maryland; filed in May 2010)
- [City of Santa Monica, California v. Expedia, Inc., et al.](#) (Superior Court of California, Los Angeles County, West District; filed in June 2010); (California Superior Court, Los Angeles County)
- [Hamilton County, Ohio, et al. v. Hotels.com, L.P., et al.](#) (U.S. District Court for the Northern District Of Ohio; filed in August 2010)
- [State of Florida Attorney General v. Expedia, Inc., et al.](#) (Circuit Court — Second Judicial Circuit, Leon County, Florida; filed in November 2010)
- [State of Oklahoma v. Priceline.com, Inc., et al.](#) (District Court of Oklahoma County, Oklahoma; filed in November 2010)
- [Montana Department of Revenue v. Priceline.com, Inc., et al.](#) (First Judicial District Court of Lewis and Clark County, Montana; filed in November 2010)
- [Montgomery County, Maryland v. Priceline.com, Inc., et al.](#) (United States District Court for the District of Maryland; filed in December 2010)

The Company has also been informed by counsel to the plaintiffs in certain of the aforementioned actions that various, undisclosed municipalities or taxing jurisdictions may file additional cases against the Company, Lowestfare.com LLC and Travelweb LLC in the future.

### *Judicial Actions Relating to Assessments Issued by Individual Cities, Counties and States*

After administrative remedies have been exhausted, the Company may seek judicial review of assessments issued by an individual city or county. Currently pending actions seeking such a review include:

- [Priceline.com, Inc., et al. v. Broward County, Florida](#) (Circuit Court — Second Judicial Circuit, Leon County, Florida; filed in January 2009)
- [Priceline.com Inc., et al. v. City of Anaheim, California, et al.](#) (Superior Court of California, County of Orange; filed in February 2009); (Superior Court of California, County of Los Angeles)
- [Priceline.com, Inc. v. Indiana Department of State Revenue](#) (Indiana Tax Court; filed in March 2009)
- [Priceline.com, Inc., et al. v. City of San Francisco, California, et al.](#) (Superior Court of California, County of San Francisco; filed in June 2009); (Superior Court of California, County of Los Angeles)
- [Priceline.com, Inc. v. Miami-Dade County, Florida, et al.](#) (Eleventh Judicial Circuit Court for Miami Dade, County, Florida; filed in December 2009)
- [Priceline.com Incorporated, et al. v. Osceola County, Florida, et al.](#) (Circuit Court of the Second Judicial Circuit, in and For Leon County, Florida; filed in January 2011)
- [In the Matter of the Tax Appeal of priceline.com Inc., In the Matter of the Tax Appeal of Lowestfare.com LLC and In the Matter of the Tax Appeal of Travelweb LLC](#) (Tax Appeal Court of the State of Hawaii; filed in March 2011)

The Company intends to prosecute vigorously its claims in these actions.

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### *Consumer Class Actions*

- Chiste, et al. v. priceline.com Inc., et al. (United States District Court for the Southern District of New York; filed in December 2008). The court granted the Company's motion to dismiss all claims against it except the breach of fiduciary claim, which, on June 21, 2011, the court ordered transferred to Illinois. On June 29, 2011, the case was transferred to the United States District Court for the Northern District of Illinois for resolution of the remaining claim, which was consolidated under Peluso v. Orbitz.com, et al., 11 Civ. 4407 on July 14, 2011. On July 13, 2011, plaintiffs filed notices of appeal of the court's orders in the Southern District of New York. On July 26, 2011, the *Peluso* court granted plaintiff's motion to voluntarily dismiss the claim against the Company in the Northern District of Illinois.

The Company intends to defend vigorously against the claims in all of the on-going proceedings described above.

### *Administrative Proceedings and Other Possible Actions*

At various times, the Company has also received inquiries or proposed tax assessments from municipalities and other taxing jurisdictions relating to the Company's charges and remittance of amounts to cover state and local hotel occupancy and other related taxes. Among others, the City of Philadelphia, Pennsylvania; the City of Phoenix, Arizona (on behalf of itself and 12 other Arizona cities); the City of Paradise Valley, Arizona; and the City of Denver, Colorado; and state tax officials from Florida, Hawaii, Indiana, Louisiana, Maryland, New Mexico, Pennsylvania, Texas, West Virginia, Wisconsin, and Wyoming have begun formal or informal administrative procedures or stated that they may assert claims against the Company relating to allegedly unpaid state or local hotel occupancy or related taxes. Since late 2008, the Company has received audit notices from more than forty cities in the state of California. The Company is engaged in audit proceedings in each of those cities. The Company has also been contacted for audit by five counties in the state of Utah and by the City of St. Louis, Missouri.

### *Litigation Related to Securities Matters*

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 the Company and the individual defendants violated the federal securities laws by issuing and selling priceline.com common stock in the Company'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. After extensive negotiations, the parties reached a comprehensive settlement on or about March 30, 2009. On April 2, 2009, plaintiffs filed a Notice of Motion for Preliminary Approval of Settlement. On June 9, 2009, the court granted the motion and scheduled the hearing for final approval for September 10, 2009. The settlement, previously approved by a special committee of the Company's Board of Directors, compromised the claims against the Company for approximately \$0.3 million. The court issued an order granting final approval of the settlement on October 5, 2009. Notices of appeal of the court's order have been filed with the Second Circuit. All but one of the appeals has been resolved. The remaining appeal is still pending.

The Company intends to defend vigorously against the claims in all of the proceedings described in this Note 13. The Company has accrued for certain legal contingencies where it is probable that a loss has been incurred and the amount can be reasonably estimated. Except as disclosed, such amounts accrued are not material to the Company's consolidated balance sheets and provisions recorded have not been material to the Company's consolidated results of operations or cash flows. The Company is unable to estimate the potential maximum range of loss.

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

*OFT Inquiry*

In September 2010, the United Kingdom's Office of Fair Trading (the "OFT"), the competition authority in the U.K., announced it was conducting a formal early stage investigation into suspected breaches of competition law in the hotel online booking sector and had written to a number of parties in the industry to request information. Specifically, the investigation focuses upon whether there are agreements or concerted practices between hotels and online travel companies and/or hotel room reservation "wholesalers" relating to the fixed or minimum resale prices of hotel room reservations. In September 2010, Booking.com B.V. and priceline.com Incorporated, on behalf of Booking.com, received a Notice of Inquiry from the OFT; the Company and Booking.com are cooperating with the OFT's investigation. The Company is unable at this time to predict the outcome of the OFT's investigation and the impact, if any, on the Company's business, financial condition and results of operations.

*Contingent Purchase Price*

In connection with the Company's purchase of Agoda in 2007, contingent consideration was payable in 2011 if Agoda achieved specific "gross bookings" and earnings targets for the three year period of January 1, 2008 through December 31, 2010. Based upon actual results for the three year period ended December 31, 2010, the Company paid \$62.6 million in March 2011 and this amount is reflected as an investing cash outflow.

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

*The following discussion should be read in conjunction with our Unaudited Consolidated Financial Statements, including the notes to those statements, included elsewhere in this 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 "Risk Factors."*

### **Overview**

We are a leading online travel company that offers our customers hotel room reservations at over 190,000 hotels worldwide through the Booking.com, priceline.com and Agoda brands. We offer international car rental reservation services through TravelJigsaw, which we acquired in May 2010. In the United States, we also offer our customers car rental reservations, airline tickets, vacation packages, cruises and destination services.

We launched our business in the United States in 1998 under the priceline.com brand and have since expanded our operations to include the Booking.com, Agoda and TravelJigsaw companies. Our principal goal is to serve our customers with worldwide leadership in online hotel and rental car reservations. Our business is driven primarily by international results. During the year ended December 31, 2010, our international business (the significant majority of which is generated by Booking.com) represented approximately 69% of our gross bookings (an operating and statistical metric referring to the total dollar value, generally inclusive of all taxes and fees, of all travel services purchased by our customers), and approximately 82% of our consolidated operating income. Given that the business of our international operations is primarily comprised of hotel reservation services, commissions earned in connection with the reservation of hotel room nights represents a substantial majority of our gross profit.

Our priceline.com brand in the U.S. offers merchant *Name Your Own Price*<sup>®</sup> travel services (sometimes referred to as "opaque" travel services), which are recorded in revenue on a "gross" basis and have associated cost of revenue. Retail, or price-disclosed, travel services offered by both our U.S. and international brands are recorded in revenue on a "net" basis and have no associated cost of revenue. Therefore, revenue increases and decreases are impacted by changes in the mix of our revenues between *Name Your Own Price*<sup>®</sup> and retail travel services. Gross profit reflects the net margin earned for both our *Name Your Own Price*<sup>®</sup> and retail travel services. Consequently, gross profit has become an increasingly important measure of evaluating growth in our business. At present, we derive substantially all of our gross profit from the following sources:

- Commissions earned from price-disclosed hotel room reservations, rental cars, cruises and other travel services;
- Transaction gross profit and customer processing fees from our *Name Your Own Price*<sup>®</sup> hotel room reservation, rental car and airline ticket services, as well as our vacation packages service;
- Transaction gross profit and customer processing fees from our price-disclosed merchant hotel room and rental car reservation services;
- Global distribution system ("GDS") reservation booking fees related to both our *Name Your Own Price*<sup>®</sup> airline ticket, hotel room reservation and rental car services, and price-disclosed airline tickets and rental car services; and
- Other gross profit derived primarily from selling advertising on our websites.

Over the last several years we have experienced strong growth in the number of hotel room night reservations booked through our hotel reservation services. We believe this growth is the result of, among other things, the broader shift of travel purchases from offline to online, the high growth of travel overall in emerging markets such as Asia-Pacific and South America, and the continued innovation and execution by our teams around

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the world to build hotel supply, content and distribution and to improve the customer experience on our websites. We experienced exceptionally strong year-over-year growth in the first half of 2011. However, given the sheer size of our hotel reservation business, we believe it is highly likely that our year-over-year growth rates will generally decelerate on a quarterly sequential basis in the future. Economic conditions in general, and hotel occupancy rates (a common metric that measures hotel customer usage) and average daily rates (“ADR’s”) in particular, generally improved throughout 2010, resulting in progressively more challenging year-over-year quarterly comparisons as we proceed through the second half of 2011. The third quarter of 2010 is a particularly challenging quarter to compare against because our growth rate had accelerated from the second quarter of 2010. Thus far in the third quarter of 2011, we have experienced deceleration in year-over-year hotel room night reservation growth as compared to the year-over-year growth rate in the second quarter of 2011, and we expect to experience further deceleration in growth rates as we proceed through the remainder of the quarter.

In addition, many governments around the world, including the U.S. government, are operating at very large financial deficits. Disruptions in the economies of such countries could cause, contribute to or be indicative of, deteriorating macro-economic conditions. Furthermore, governmental austerity measures aimed at reducing deficits could impair the economic recovery and adversely affect travel demand. Finally, higher oil prices are contributing to higher airline ticket prices and are likely to adversely impact consumer discretionary funds available to be spent on travel.

Large, established Internet search engines with substantial resources and expertise in developing online commerce and facilitating Internet traffic are creating — and intend to further create — inroads into online travel, both in the U.S. and internationally. For example, earlier this year, the U.S. Department of Justice approved Google’s acquisition of ITA Software, Inc., a major flight information software company, which will allow Google to pursue the creation of new flight search tools that will enable users to find fares, schedules and availability directly on Google. Google has also invested in HomeAway, a publicly traded vacation home rental service, and launched “Hotel Finder” in July 2011, a utility that allows users to search and compare hotel accommodations based on parameters set by the user. In addition, Microsoft has launched *Bing Travel*, a “meta-search” site, which searches for airfare and hotel reservations online and predicts the best time to purchase them. “Meta-search” sites leverage their search technology to aggregate travel search results for the searcher’s specific itinerary across supplier, travel agent and other websites and, in many instances, compete directly with us for customers. Some meta-search sites, such as Kayak.com, which recently began offering its users the ability to make hotel reservations directly on its website, may evolve into more traditional online travel sites. These initiatives, among others, illustrate Google’s and Bing’s clear intention to more directly appeal to travel consumers by showing consumers more detailed travel search results, including specific information for travelers’ own itineraries, which could lead to suppliers or others gaining a larger share of Google’s or Bing’s traffic or may ultimately lead to search engines maintaining transactions within their own websites. If Google, as the single largest search engine in the world, or Bing, or other leading search engines refer significant traffic to these or other travel services that they develop in the future, it could result in, among other things, more competition from supplier websites and higher customer acquisition costs for third-party sites such as ours and could have a material adverse effect on our business, results of operations and financial condition.

Hotels are increasingly offering hotel room reservations through “daily deal” websites such as Groupon and Living Social, which sell coupons to customers at a substantial discount. Expedia recently entered into a partnership with Groupon to sell hotel room reservations to Groupon customers under the “Groupon Getaways” brand name. If these new services are successful, we may experience less demand for our services and are likely to face more competition for access to the limited supply of discounted hotel room rates.

*International Trends.* The size of the travel market outside of the United States is substantially greater than that within the United States. Historically, Internet adoption rates and e-commerce adoption rates of international consumers have trailed those of the United States. However, international consumers are rapidly moving to online means for purchasing travel. Accordingly, recent international online travel growth rates have substantially exceeded, and are expected to continue to exceed, the growth rates within the United States. In addition, the base of hotel suppliers in Europe and Asia is particularly fragmented compared to that in the United States, where the hotel market is dominated by large hotel chains. We believe online reservation systems like ours may be more appealing to small chains and independent hotels more commonly found outside of the United States. Our growth has

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primarily been generated by our international hotel reservation service brands, Booking.com and Agoda. Booking.com, our most significant brand, currently includes over 155,000 hotels on its website as compared to about 96,000 hotels last year. Booking.com has added hotels over the past year in its core European market as well as higher-growth markets such as North America, Asia-Pacific and South America. An increasing amount of our business from a destination and point-of-sale perspective is conducted in these newer markets which are growing faster than our overall growth rate. We believe these trends and factors have enabled us to become the top online hotel reservation service provider in the world as measured by room nights booked.

As our international operations have become significant contributors to our results and international hotel bookings have become of increased importance to our earnings, we have seen, and expect to continue to see, changes in certain of our operating expenses and other financial metrics. For example, because Booking.com and Agoda utilize online search and affiliate marketing as the principal means of generating traffic to their websites, our online advertising expense has increased significantly over recent years, a trend we expect to continue throughout the remainder of 2011. In addition, and as discussed in more detail below, we have seen the effects of seasonal fluctuations on our operating results change as a result of different revenue recognition policies that apply to our price-disclosed services (including our international hotel service) as compared to our *Name Your Own Price*<sup>®</sup> services, as well as increased business in the southern hemisphere, which has different seasonality than the northern hemisphere.

Another impact of the growing importance of Booking.com, Agoda and TravelJigsaw is our increased exposure to foreign currency exchange risk. Because we are conducting a significant and growing portion of our business outside the United States and are reporting our results in U.S. Dollars, we face exposure to adverse movements in currency exchange rates as the financial results of our international operations are translated from local currency (principally the Euro and the British Pound Sterling) into U.S. Dollars upon consolidation. A strengthening of the Euro increases our Euro-denominated net assets, gross bookings, gross profit, operating expenses, and net income as expressed in U.S. Dollars, while a weakening of the Euro decreases our Euro-denominated net assets, gross bookings, gross profit, operating expenses, and net income as expressed in U.S. Dollars. Greece, Ireland, Portugal and certain other European Union countries with high levels of sovereign debt have had difficulty refinancing that debt. Concern around devaluation or abandonment of the Euro common currency, or that sovereign default risk may be more widespread and could include the U.S., has led to significant volatility in the exchange rate between the Euro, the U.S. dollar and other currencies. We generally enter into derivative instruments to minimize the impact of short-term currency fluctuations on our consolidated operating results. However, such derivative instruments are short term in nature and not designed to hedge against currency fluctuation that could impact our foreign currency denominated gross bookings, revenue or gross profit (see Note 5 to the Unaudited Consolidated Financial Statements for additional information on our derivative contracts). Our international operations contributed approximately \$612.9 million and \$1.0 billion to our revenues for the three and six months ended June 30, 2011, respectively, which compares to \$322.6 million and \$538.3 million for the three and six months ended June 30, 2010, respectively (year-over-year growth of approximately 90% and 86% respectively). Revenue attributable to our international operations increased on a local currency basis by approximately 71% and 74% in the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010.

*Domestic Trends.* Competition in domestic online travel remains intense and traditional online travel companies are creating new promotions and consumer value features in an effort to gain competitive advantage. In particular, the competition to provide “opaque” hotel services to consumers, an area in which priceline.com has been a leader, has become more intense over the recent past. For example, in the fourth quarter of 2010, Expedia began making opaque hotel room reservations available on its principal website under the name “Expedia Unpublished Rates” and has been supporting the initiative with a national television advertising campaign. In addition, in 2009, Travelocity launched an opaque price-disclosed hotel booking service that allows customers to book rooms at a discount. As with our *Name Your Own Price*<sup>®</sup> hotel booking service, for these services, the name of the hotel is not disclosed until after purchase. We believe these new offerings, in particular Expedia Unpublished Rates, have adversely impacted the market share and year-over-year growth rate for our opaque hotel service. In addition, hotels are increasingly offering discounted hotel room reservations through “daily deal” websites such as Groupon and Living Social. If Expedia or Travelocity are successful in growing their opaque hotel service, and/or “daily deal”

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websites are successful in garnering a sizable share of discounted hotel bookings, we may have less consumer demand for our opaque hotel service over time and we are likely to face more competition for access to the limited supply of discounted hotel room rates. As a result, we believe our share of the discount hotel market in the U.S. could further decrease.

We believe that for a number of reasons, including the recent significant year-over-year increase in retail airfares, consumers are engaging in increased shopping behavior before making a travel purchase than they engaged in previously. Increased shopping behavior reduces our advertising efficiency and effectiveness because traffic becomes less likely to result in a purchase on our website, and such traffic is more likely to be obtained through paid online advertising channels than through free direct channels.

While demand for online travel services in the U.S. continues to experience annualized growth, we believe that the domestic market share of third-party distributors, like priceline.com, has declined over the last several years and that the growth of the domestic online market for travel services has slowed. We believe the decline in market share is attributable, in part, to a concerted initiative by travel suppliers to direct customers to their own websites in an effort to reduce distribution expenses and establish more direct control over their pricing.

Some travel suppliers are encouraging third-party travel intermediaries, such as us, to develop technology to bypass the traditional GDSs, such as enabling direct connections to the travel suppliers or using alternative global distribution methods. For example, in 2011, we enabled a direct connection with American Airlines. During 2011, American content was temporarily unavailable on Expedia and Orbitz due to disputes related to enabling a direct connection. We believe that this is consistent with an effort on the part of American Airlines, and the airline industry in general, to reduce distribution costs and could be indicative of the airlines in general becoming more aggressive in requiring online travel agents to implement direct connections. Development and implementation of the technology to enable additional direct connections to travel suppliers could cause us to incur additional operating expenses, increase the frequency/duration of system problems and delay other projects. In addition, any additional migration toward direct connections would reduce the compensation we receive from GDSs.

Many current agreements between major U.S. airlines and major GDSs are due to expire during or at the end of 2011. It is unclear whether and to what extent any new agreement (or extension or renewal of any existing agreement) between any major U.S. airline and any major GDS will enable GDS subscribers, such as us, equal access to the fares, inventory and content provided by such carrier through the GDS. Furthermore, it is possible that a dispute between an airline and a GDS could lead to an airline removing its fares from the GDS. Despite the fact that such a dispute may not involve us, our business could be adversely affected if we are denied access to airfares in a major GDS.

Domestic airlines have reduced capacity and increased fares since the latter part of 2009, a trend which may continue. Decreases in capacity reduce the amount of airline tickets available to us, while significant increases in average airfares in 2010 and thus far in 2011 have adversely impacted leisure travel demand. Reduced airline capacity and demand negatively impact our priceline.com air business, which in turn has negative repercussions on our priceline.com hotel and rental car businesses. Our rental car business is further impacted by decreases in rental car fleets, which has negatively impacted our *Name Your Own Price*<sup>®</sup> rental car service. In addition, each of Hertz and Avis has recently pursued strategies to acquire the Dollar-Thrifty Automotive Group. The merger or acquisition of the Dollar-Thrifty Automotive Group by Hertz, Avis or another rental car company could result in a further decrease of rental car availability. As a result of these challenges, we experienced a decline in *Name Your Own Price*<sup>®</sup> airline tickets and rental car days during the year ended December 31, 2010 compared to 2009. Our access to discounted airline ticket and rental cars improved during the three months ended June 30, 2011 as compared to recent quarters, but we expect continued variability in the breadth and depth of discounted airline tickets and rental car rates made available to us in the future, depending on market conditions from time to time.

We believe that our success will depend in large part on our ability to maintain profitability, primarily from our hotel business, to continue to promote the Booking.com, Agoda and TravelJigsaw brands internationally and the priceline.com brand in the United States, and, over time, to offer other travel services and further expand into other international markets. Factors beyond our control, such as worldwide recession, higher oil prices, terrorist attacks, unusual weather patterns, natural disasters such as earthquakes, hurricanes, tsunamis, volcanic eruptions (such as the

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April 2010 eruption of a volcano in Iceland), travel related health concerns including pandemics and epidemics such as Influenza H1N1, avian bird flu and SARS, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel related accidents or the withdrawal from our system of a major hotel supplier or airline, could adversely affect our business and results of operations and impair our ability to effectively implement all or some of the initiatives described above.

For example, in early 2011, Japan was struck by a major earthquake, tsunami and nuclear emergency. Japan is an important source of travel demand for Agoda, and these crises have had an adverse impact on travel demand originating in Japan. In addition, in early 2010, civil unrest in Thailand, a key market for our Agoda business and the Asian business of Booking.com, negatively impacted booking volumes in this market at the time. Clashes involving Thai security forces, anti-government demonstrators and groups supporting the government resulted in violence in various locations in Bangkok, causing the temporary relocation of Agoda's Thailand-based operations. Thailand has experienced disruptive civil unrest in prior years as well and continued or future civil or political unrest could further disrupt our business and operations in Thailand.

We intend to continue to invest in marketing and promotion, technology and personnel within parameters consistent with attempts to improve operating results. We also intend to broaden the scope of our business, and to that end, we explore strategic alternatives from time to time in the form of, among other things, mergers and acquisitions. Our goal is to improve volume and sustain gross margins in an effort to maintain profitability. The uncertain environment described above makes the prediction of future results of operations difficult, and accordingly, we cannot provide assurance that we will sustain revenue growth and profitability.

*Seasonality.* A meaningful amount of retail gross bookings are generated early in the year, as customers plan and reserve their spring and summer vacations in the Northern Hemisphere. However, we will not recognize associated revenue until future quarters when the travel occurs. From a cost perspective, we expense the substantial majority of our advertising activities as they are incurred, which is typically in the quarter in which bookings are generated. As a result, we typically experience our highest levels of profitability in the second and third quarters of the year, which is when we experience the highest levels of booking and travel consumption for the year for our North American and European businesses. However, we experience the highest levels of booking and travel consumption for our Asia-Pacific and South American businesses in the first and fourth quarters. Therefore, if these businesses continue to grow faster than our North American and European businesses, our operating results for the first and fourth quarters of the year may become more significant over time as a percentage of full year operating results.

## **Results of Operations**

*Three and Six Months Ended June 30, 2011 compared to the Three and Six Months Ended June 30, 2010*

### ***Operating Metrics***

Our financial results are driven by certain operating metrics that encompass the booking activity generated by our travel services. Specifically, reservations of hotel room nights, rental car days and airline tickets capture the volume of units purchased by our customers. Gross bookings is an operating and statistical metric that captures the total dollar value, generally inclusive of taxes and fees, of all travel services booked by our customers, and is widely used in the travel business. International gross bookings reflect gross bookings generated principally by websites owned by, operated by, or dedicated to providing gross bookings for our international brands and operations, and domestic gross bookings reflect gross bookings generated principally by websites owned by, operated by, or dedicated to providing gross bookings by our domestic operations, in each case without regard to the location of the travel or the customer purchasing the travel.



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Gross bookings resulting from hotel room night reservations, rental car days and airline tickets reserved through our domestic and international operations for the three and six months ended June 30, 2011 and 2010 were as follows (numbers may not total due to rounding):

	Three Months Ended June 30, (in millions)			Six Months Ended June 30, (in millions)		
	2011	2010	Change	2011	2010	Change
<i>Domestic</i>	\$ 1,308	\$ 1,154	13.4%	\$ 2,437	\$ 2,143	13.7%
<i>International</i>	4,472	2,256	98.2%	8,008	4,232	89.2%
<i>Total</i>	\$ 5,780	\$ 3,410	69.5%	\$ 10,445	\$ 6,375	63.9%

Gross bookings increased by 69.5% and 63.9% for the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010, principally due to 55.6% and 55.7% growth in hotel room night reservations, respectively. The 98.2% increase in international gross bookings (growth on a local currency basis was approximately 79%) was attributable to growth in international hotel room night reservations for our Booking.com and Agoda businesses, as well as higher average daily rates charged for hotel stays. International gross bookings for the three and six months ended June 30, 2011 includes \$154 million and \$250 million, respectively, from TravelJigsaw, which was acquired in May 2010, compared to \$44 million for the same periods of 2010. Domestic gross bookings increased by 13.4% and 13.7% for the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010, primarily due to growth in price-disclosed hotel room night reservations, airline tickets booked, which was compounded by an increase in average fares, and *Name Your Own Price*<sup>®</sup> hotel room night reservations.

Gross bookings resulting from hotel room night reservations, rental car days and airline tickets sold through our agency and merchant models for the three and six months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30, (in millions)			Six Months Ended June 30, (in millions)		
	2011	2010	Change	2011	2010	Change
<i>Agency</i>	\$ 4,725	\$ 2,683	76.1%	\$ 8,507	\$ 5,057	68.2%
<i>Merchant</i>	1,055	727	45.1%	1,939	1,318	47.1%
<i>Total</i>	\$ 5,780	\$ 3,410	69.5%	\$ 10,445	\$ 6,375	63.9%

Agency gross bookings increased 76.1% and 68.2% for the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010, due to growth in the sale of Booking.com hotel room night reservations. Our U.S. business also contributed growth in reservations of price-disclosed hotel room nights, airline tickets and rental car days. Merchant gross bookings increased 45.1% and 47.1% for the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010, due to an increase in the sale of Agoda and priceline.com price-disclosed and *Name Your Own Price*<sup>®</sup> hotel room night reservations, *Name Your Own Price*<sup>®</sup> airline tickets and rental car days, and the inclusion of TravelJigsaw since its acquisition in May 2010. Gross bookings for TravelJigsaw were \$154 million and \$250 million for the three and six months ended June 30, 2011, respectively, compared to \$44 million for the three and six months ended June 30, 2010.

	Hotel Room Nights	Rental Car Days	Airline Tickets
<i>Three Months ended June 30, 2011</i>	36.1 million	6.6 million	1.7 million
<i>Three Months ended June 30, 2010</i>	23.2 million	4.3 million	1.6 million
<i>Six Months ended June 30, 2011</i>	67.3 million	11.5 million	3.3 million
<i>Six Months ended June 30, 2010</i>	43.2 million	7.3 million	3.2 million

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Hotel room night reservations increased by 55.6% and 55.7% for the three and six months ended June 30, 2011, compared to the same periods in 2010, respectively, principally due to an increase in Booking.com agency room night reservations, Agoda and priceline.com price-disclosed room night reservations, and *Name Your Own Price*<sup>®</sup> room night reservations. Booking.com, our most significant brand, currently includes over 155,000 hotels on its website as compared to about 96,000 hotels last year. Booking.com has added hotels over the past year in its core European market as well as higher-growth markets such as North America, Asia-Pacific and South America. An increasing amount of our business from a destination and point-of-sale perspective is conducted in these newer markets which are growing faster than our overall growth rate. Our U.S. agency hotel reservations benefitted from the inclusion of U.S. hotels from Booking.com supply on the priceline.com website.

Rental car day reservations increased by 54.6% and 58.8% for the three and six months ended June 30, 2011, compared to the same periods in 2010, respectively, due primarily to the inclusion of rental car day reservations from TravelJigsaw, which we acquired in May 2010, as well as an increase in priceline.com price-disclosed rental car days and *Name Your Own Price*<sup>®</sup> rental car days in the U.S. due to an increase in discounted rental car availability in the marketplace.

Airline ticket reservations increased by 7.3% and 4.8% for the three and six months ended June 30, 2011, compared to the same periods in 2010, respectively, due to an increase in price-disclosed airline ticket reservations, which benefited from the temporary absence of American Airlines on the Expedia and Orbitz websites during the three and six months of 2011, and an increase in the sale of *Name Your Own Price*<sup>®</sup> airline ticket reservations.

### **Revenues**

- Merchant revenues are derived from transactions where we are the merchant of record and therefore charge the customer's credit card for the travel services provided. Merchant revenues include (1) transaction revenues representing the selling price of *Name Your Own Price*<sup>®</sup> hotel room reservations, rental cars and airline tickets and price-disclosed vacation packages; (2) transaction revenues representing the amount charged to a customer, less the amount charged by suppliers in connection with (a) the hotel room reservations provided through our merchant price-disclosed hotel service in the U.S. and at Agoda, and (b) the rental car reservations provided through our merchant semi-opaque rental car service at TravelJigsaw (which allows customers to see the price of the reservation prior to purchase, but not the identity of the supplier); (3) customer processing fees charged in connection with the sale of *Name Your Own Price*<sup>®</sup> airline tickets, hotel room reservations and rental cars and merchant price-disclosed hotel reservations; and (4) ancillary fees, including GDS reservation booking fees related to certain of the services listed above.
- Agency revenues are derived from travel related transactions where we are not the merchant of record and where the prices of the travel services are determined by third parties. Agency revenues include travel commissions, customer processing fees and GDS reservation booking fees related to certain of the services listed above and are reported at the net amounts received, without any associated cost of revenue. Principally all of the revenue for Booking.com is comprised of travel commissions.
- Other revenues are derived primarily from advertising on our websites.

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	Three Months Ended June 30, (\$000)			Change	Six Months Ended June 30, (\$000)			Change
	2011	2010			2011	2010		
<i>Merchant Revenues</i>	\$ 530,530	\$ 446,669		18.8%	\$ 985,334	\$ 814,933		20.9%
<i>Agency Revenues</i>	569,181	317,512		79.3%	920,603	530,755		73.5%
<i>Other Revenues</i>	3,005	3,258		(7.8)%	6,098	6,144		(0.7)%
<i>Total Revenues</i>	\$ 1,102,716	\$ 767,439		43.7%	\$ 1,912,035	\$ 1,351,832		41.3%

*Merchant Revenues*

Merchant revenues for the three and six months ended June 30, 2011 increased 18.8% and 20.9%, respectively, compared to the same periods in 2010, primarily due to increases in Agoda price-disclosed hotel room reservations and *Name Your Own Price*<sup>®</sup> hotel room night reservations and airline tickets, the inclusion of TravelJigsaw since its acquisition in May 2010, and an increase in priceline.com price-disclosed merchant hotel room night reservations.

*Agency Revenues*

Agency revenues for the three and six months ended June 30, 2011 increased 79.3% and 73.5%, respectively, compared to the same periods in 2010, primarily as a result of growth in the business of Booking.com. Our U.S. agency hotel room reservations benefited from the integration of U.S. hotels from the Booking.com extranet into the priceline.com website.

*Other Revenues*

Other revenues during the three and six months ended June 30, 2011 consisted primarily of advertising revenues. Other revenues for the three months ended June 30, 2011 decreased 7.8% compared to the same period in 2010, and were flat for the six months ended June 30, 2011 compared to the same period in 2010.

***Cost of Revenues and Gross Profit***

	Three Months Ended June 30, (\$000)			Change	Six Months Ended June 30, (\$000)			Change
	2011	2010			2011	2010		
<i>Cost of Revenues</i>	\$ 353,489	\$ 322,184		9.7%	\$ 657,001	\$ 587,462		11.8%
<i>% of Merchant Revenues</i>	66.6%	72.1%			66.7%	72.1%		

*Cost of Revenues*

For the three and six months ended June 30, 2011, cost of revenues consisted primarily of charges from the suppliers for: (1) the cost of *Name Your Own Price*<sup>®</sup> hotel room reservations, net of applicable taxes, (2) the cost of *Name Your Own Price*<sup>®</sup> rental cars, net of applicable taxes; and (3) the cost of *Name Your Own Price*<sup>®</sup> airline tickets, net of the federal air transportation tax, segment fees and passenger facility charges imposed in connection with the sale of airline tickets. Cost of revenues for the three and six months ended June 30, 2011 increased by 9.7% and 11.8%, respectively, compared to the same periods in 2010, due primarily to the increase in *Name Your Own Price*<sup>®</sup> discussed above. Merchant price-disclosed hotel and rental car reservations are recorded in merchant revenues net of the amounts paid to suppliers and therefore, there is no associated cost of revenues for merchant price-disclosed revenues. Cost of revenues as a percentage of their associated merchant revenues decreased primarily due to the increase in merchant price-disclosed hotel revenues and the addition of TravelJigsaw merchant

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revenue, all of which are recorded on a “net” basis.

Agency revenues are recorded at their net amount, which are amounts received less amounts paid to suppliers, if any, and therefore, there are no costs of agency revenues.

*Gross Profit*

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
	<i>Gross Profit</i>	\$ 749,227	\$ 445,255	68.3%	\$ 1,255,035	\$ 764,370
<i>Gross Margin</i>	67.9%	58.0%		65.6%	56.5%	

Total gross profit for the three and six months ended June 30, 2011 increased by 68.3% and 64.2%, respectively, compared to the same periods in 2010, primarily as a result of increased revenue discussed above. Total gross margin (gross profit expressed as a percentage of total revenue) increased during the three and six months ended June 30, 2011, compared to the same periods in 2010, because *Name Your Own Price*® revenues, which are recorded “gross” with a corresponding cost of revenue, represented a smaller percentage of total revenues compared to retail, price-disclosed revenues which are primarily recorded “net” with no corresponding cost of revenues. Because *Name Your Own Price*® transactions are reported “gross” and retail transactions are primarily recorded on a “net” basis, we believe that gross profit has become an increasingly important measure of evaluating growth in our business. Our international operations accounted for approximately \$612.1 million and \$1.0 billion of our gross profit for the three and six months ended June 30, 2011, respectively, which compares to \$321.8 million and \$536.7 million for the same periods in 2010, respectively. Gross profit attributable to our international operations increased, on a local currency basis, by approximately 71% and 74% in the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010.

*Operating Expenses*

*Advertising*

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
	<i>Online Advertising</i>	\$ 236,282	\$ 132,518	78.3%	\$ 421,391	\$ 245,627
<i>% of Total Gross Profit</i>	31.5%	29.8%		33.6%	32.1%	
<i>Offline Advertising</i>	\$ 9,815	\$ 10,123	(3.0)%	\$ 21,429	\$ 21,911	(2.2)%
<i>% of Total Gross Profit</i>	1.3%	2.3%		1.7%	2.9%	

Online advertising expenses primarily consist of the costs of (1) search engine keyword purchases; (2) affiliate programs; (3) banner and pop-up advertisements; and (4) e-mail campaigns. For the three and six months ended June 30, 2011, online advertising expenses increased over the same periods in 2010, primarily to support increased hotel room night reservations for Booking.com, Agoda and priceline.com, as well the inclusion of online advertising for TravelJigsaw since its acquisition in May 2010. Online advertising as a percentage of gross profit increased for the three and six months ended June, 2011 compared to the same periods in 2010. The increase is driven primarily by brand mix rather than a change in the fundamental efficiency of our online advertising by brand. Our international businesses are growing faster than our priceline.com business in the U.S., and spend a higher percentage of gross profit on online advertising. Furthermore, priceline.com is obtaining an increasing share of its traffic through online advertising, a trend which we expect to continue. We recognize advertising expense at the time

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of booking, but recognize the gross profit for price-disclosed reservations when the travel is completed. Offline advertising expenses are related to our domestic television, print and radio advertising for priceline.com. For the three and six months ended June 30, 2011, offline advertising expenses decreased compared to the same periods in 2010, primarily due to lower advertisement production costs.

*Sales and Marketing*

	Three Months Ended June 30, (\$000)			Change	Six Months Ended June 30, (\$000)			Change
	2011	2010			2011	2010		
<i>Sales and Marketing</i>	\$ 41,030	\$ 28,490		44.0%	\$ 75,807	\$ 52,603		44.1%
<i>% of Total Gross Profit</i>	5.5%	6.4%			6.0%	6.9%		

Sales and marketing expenses consist primarily of (1) credit card processing fees associated with merchant transactions; (2) fees paid to third-parties that provide call center, website content translations and other services (3) provisions for credit card chargebacks; and (4) provisions for bad debt, primarily related to agency hotel commission receivables. For the three and six months ended June 30, 2011, sales and marketing expenses, which are substantially variable in nature, increased over the same periods in 2010, primarily due to increased gross booking volumes. Costs associated with merchant bookings for our U.S. business is the largest component of sales and marketing expense. Our U.S. merchant gross profit grew more slowly than our total gross profit, which benefited from the high growth in our international agency business, and as a result, sales and marketing expenses as a percentage of total gross profit for the three and six months ended June 30, 2011 declined compared to the same periods of 2010.

*Personnel*

	Three Months Ended June 30, (\$000)			Change	Six Months Ended June 30, (\$000)			Change
	2011	2010			2011	2010		
<i>Personnel</i>	\$ 85,766	\$ 62,850		36.5%	\$ 160,988	\$ 112,628		42.9%
<i>% of Total Gross Profit</i>	11.4%	14.1%			12.8%	14.7%		

Personnel expenses consist of compensation to our personnel, including salaries, bonuses, payroll taxes, employee health benefits and stock-based compensation. For the three and six months ended June 30, 2011, personnel expenses increased over the same periods in 2010, due primarily to increased headcount to support the growth of our business and the inclusion of TravelJigsaw since its acquisition in May 2010. Stock-based compensation expense was approximately \$13.1 million and \$15.5 million for the three months ended June 30, 2011 and 2010, respectively, and approximately \$27.1 million and \$27.4 million for the six months ended June 30, 2011 and 2010, respectively. Stock-based compensation expense is lower in the three months ended June 30, 2011 as compared to the same period in 2010, because for the three months ended June 30, 2010, this amount included the cumulative impact of \$3.1 million to reflect an increase in the estimated probable outcome for certain performance share units.

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*General and Administrative*

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
	<i>General and Administrative</i>	\$ 29,736	\$ 22,462	32.4%	\$ 55,614	\$ 40,493
<i>% of Total Gross Profit</i>	4.0%	5.0%		4.4%	5.3%	

General and administrative expenses consist primarily of: (1) fees for outside professionals, including litigation expenses; (2) occupancy expenses; and (3) personnel related expenses such as recruiting, training and travel expenses. General and administrative expenses increased during the three and six months ended June 30, 2011, over the same periods in 2010, due to higher personnel related and office expenses to support growth in our international operations and the inclusion of TravelJigsaw since its acquisition in May 2010, partially offset by lower professional fees related to the acquisition of TravelJigsaw in May 2010.

*Information Technology*

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
	<i>Information Technology</i>	\$ 8,239	\$ 4,895	68.3%	\$ 14,908	\$ 9,503
<i>% of Total Gross Profit</i>	1.1%	1.1%		1.2%	1.2%	

Information technology expenses consist primarily of: (1) system maintenance and software license fees; (2) outsourced data center costs relating to our domestic and international data centers; (3) data communications and other expenses associated with operating our Internet sites; and (4) payments to outside consultants. For the three and six months ended June 30, 2011, information technology expenses increased compared to the same periods in 2010, due primarily to growth in our worldwide operations.

*Depreciation and Amortization*

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
	<i>Depreciation and Amortization</i>	\$ 13,651	\$ 10,758	26.9%	\$ 26,130	\$ 20,537
<i>% of Total Gross Profit</i>	1.8%	2.4%		2.1%	2.7%	

Depreciation and amortization expenses consist of: (1) amortization of intangible assets with determinable lives; (2) amortization of internally developed and purchased software, (3) depreciation of computer equipment; and (4) depreciation of leasehold improvements, office equipment and furniture and fixtures. For the three and six months ended June 30, 2011, depreciation and amortization expense increased from the same periods in 2010, primarily due to acquisition-related amortization in connection with our acquisition of TravelJigsaw in May 2010.

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**Other Income (Expense)**

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
<i>Interest Income</i>	\$ 2,129	\$ 940	126.5%	\$ 3,550	\$ 1,795	97.8%
<i>Interest Expense</i>	(7,795)	(9,267)	(15.9)%	(15,510)	(14,072)	10.2%
<i>Foreign Currency Transactions and Other</i>	(2,451)	1,039	(336.0)%	(9,523)	(2,092)	355.1%
<i>Total</i>	\$ (8,117)	\$ (7,288)	11.4%	\$ (21,483)	\$ (14,369)	49.5%

For the three and six months ended June 30, 2011, interest income on cash and marketable securities increased over the same periods in 2010, primarily due to an increase in the average balance invested. Interest expense decreased for the three months ended June 30, 2011, as compared to the same period in 2010, primarily due to a decrease in the average outstanding debt. Interest expense increased for the six months ended June 30, 2011, as compared to the same period in 2010, primarily due to an increase in the average outstanding debt resulting from the March 2010 issuance of \$575 million aggregate principal amount of convertible senior notes. "Foreign currency transactions and other" includes foreign exchange losses of \$0.4 million and \$2.1 million for the three and six months ended June 30, 2011, respectively, compared to foreign exchange gains of \$6.0 million and \$8.6 million for the three and six months ended June 30, 2010, respectively, related to foreign exchange derivative contracts. Foreign exchange transaction losses, including fees on foreign exchange transactions, were approximately \$2.0 million and \$7.4 million for the three and six months ended June 30, 2011, respectively, compared to a loss of \$2.1 million and \$2.5 million for the three months ended June 30, 2010, respectively. In addition, losses of \$2.9 million and \$8.1 million for the three and six months ended June 30, 2010, respectively, resulted from convertible debt conversions.

**Income Taxes**

	Three Months Ended June 30, (\$000)			Six Months Ended June 30, (\$000)		
	2011	2010	Change	2011	2010	Change
<i>Income Tax Expense</i>	\$ 60,314	\$ 51,275	17.6%	\$ 96,993	\$ 78,228	24.0%

Our effective tax rate for the three and six months ended June 30, 2011 was 19.1% and 21.2%, respectively. Our effective tax rate for the three and six months ended June 30, 2011 differs from the expected tax provision at the U.S. statutory tax rate of 35% principally due to lower foreign tax rates and the resolution of an uncertain tax position during the three months ended June 30, 2011.

Following the conclusion of an audit, we reversed a reserve of approximately \$12.5 million in the three months ended June 30, 2011 for unrecognized tax benefits attributable to tax positions taken in 2010. Other than this decrease in reserves for unrecognized tax benefits, we do not expect a significant change in the amount of unrecognized tax benefits during the next twelve months.

The effective tax rate for the three and six months ended June 30, 2011 is lower compared to the same periods in 2010 primarily due to a higher percentage of foreign income, which is taxed at lower rates, and the reversal of the reserve for unrecognized tax benefits referred to above. Our 2011 effective tax rate is also lower as a result of application of the Innovation Box Tax benefit discussed below.

Effective January 1, 2010, the Netherlands modified its corporate income tax law related to income generated from qualifying "innovative" activities (the "Innovation Box Tax"). Earnings that qualify for the Innovation Box Tax will effectively be taxed at the rate of 5% rather than the Dutch statutory rate of 25.0%.

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Booking.com obtained a ruling from the Dutch tax authorities in February 2011 confirming that a portion of its earnings (“qualifying earnings”) is eligible for Innovation Box Tax treatment. The ruling from the Dutch tax authorities is valid from January 1, 2010 through December 31, 2013 (the “Initial Period”). In this ruling, the Dutch tax authorities require that the Innovation Box Tax benefit be phased in over a multi-year period. The amount of qualifying earnings expressed as a percentage of the total pretax earnings in the Netherlands will vary depending upon the level of total pretax earnings that is achieved in any given year.

In order to be eligible for Innovation Box Tax treatment, Booking.com must, among other things, apply for and obtain a research and development (“R&D”) certificate from a Dutch governmental agency every six months confirming that the activities that Booking.com intends to be engaged in over the subsequent six month period are “innovative.” Should Booking.com fail to secure such a certificate in any such period — for example, because the governmental agency does not view Booking.com’s new or anticipated activities as “innovative” — or should this agency determine that the activities contemplated to be performed in a prior period were not performed as contemplated or did not comply with the agency’s requirements, Booking.com may lose its certificate and, as a result, the Innovation Box Tax benefit may be reduced or eliminated.

After the Initial Period, Booking.com intends to reapply for continued Innovation Box Tax treatment for future periods. There can be no assurance that Booking.com’s application will be accepted, or that the amount of qualifying earnings or applicable tax rates will not be reduced at that time. In addition, there can be no assurance that the tax law will not change in 2011 and/or future years resulting in a reduction or elimination of the tax benefit.

The Innovation Box Tax did not have a material impact on the Company’s 2010 results. The Company currently expects the impact of the Innovation Box Tax to reduce its consolidated effective income tax rate for 2011 by approximately two to four percentage points. We increased our estimate of the annual impact of Innovation Box Tax benefit this quarter, which resulted in an additional tax benefit related to the cumulative impact on first quarter of approximately \$2.2 million, which was recognized during the three months ended June 30, 2011.

Due to our domestic net operating loss carryforwards, we do not expect to make tax payments on our U.S. income, except for U.S. federal alternative minimum tax and state income taxes. However, we expect to pay foreign taxes on our foreign income. We expect that our international operations will grow their pretax income at higher rates than the U.S. over the long term and, therefore, it is our expectation that our cash tax payments will increase as our international businesses generate an increasing share of our pre-tax income.

We were recently notified that the Internal Revenue Service will initiate an audit of our income taxes for the first time in the third quarter of 2011. To date, we have been audited in several taxing jurisdictions with no significant adjustments as a result. If future audits find that additional taxes are due, we may be subject to incremental tax liabilities, possibly including interest and penalties, which could have a material adverse effect on our financial condition and results of operations.

**Redeemable Noncontrolling Interests**

	Three Months Ended June 30, (\$000)			Change	Six Months Ended June 30, (\$000)		
	2011	2010			2011	2010	Change
<i>Net loss attributable to redeemable noncontrolling interests</i>	\$ 91	\$ 361	(74.8)%	\$ 867	\$ 361	140.2%	

The net loss attributable to redeemable noncontrolling interests for the three months ended June 30, 2011 compared to the same period in 2010 decreased due to improved year-over-year operating performance for TravelJigsaw. The net loss attributable to redeemable noncontrolling interests for the six months ended June 30, 2011 compared to the same period in 2010 increased because 2010 results only reflect TravelJigsaw since its acquisition on May 18, 2010. The first quarter is typically TravelJigsaw’s least profitable annual quarter as a meaningful amount of gross bookings are generated and online advertising expense is incurred as customers plan and reserve their spring and summer vacations. However, we recognize the associated revenue in future quarters when travel occurs.



## Liquidity and Capital Resources

As of June 30, 2011, we had \$1.9 billion in cash, cash equivalents and short-term investments. Approximately \$1.0 billion of our cash and cash equivalents and short-term investments are held by our international subsidiaries and are denominated primarily in Euros and, to a lesser extent, in British Pound Sterling. We currently intend to permanently reinvest this cash in our international operations. We could not repatriate this cash without incurring an additional tax liability in the U.S. Cash equivalents and short-term investments are primarily comprised of highly liquid, investment-grade debt securities.

As of June 30, 2011, we have a remaining authorization from our Board of Directors to repurchase \$459.2 million of our common stock. We may from time to time make additional repurchases of our common stock, depending on prevailing market conditions, alternate uses of capital, and other factors.

Our merchant transactions are structured such that we collect cash up front from our customers and then we pay most of our suppliers at a subsequent date. We therefore tend to experience significant swings in supplier payables depending on the absolute level of our merchant transactions during the last few weeks of every quarter. This can cause volatility in working capital levels and impact cash balances more or less than our operating income would indicate.

Net cash provided by operating activities for the six months ended June 30, 2011, was \$499.5 million, resulting from net income of \$360.3 million, non-cash items not affecting cash flows of \$89.9 million and net favorable changes in working capital of \$49.3 million. The changes in working capital for the six months ended June 30, 2011, were primarily related to a \$204.3 million increase in accounts payable, accrued expenses and other current liabilities, partially offset by a \$154.2 million increase in accounts receivable. The increase in these working capital balances was primarily related to seasonality and increases in business volume. Our bookings and revenues are generally higher in the second quarter of the year than in the fourth quarter of the year which typically results in higher accounts receivable, deferred merchant bookings, accounts payable and accrued expenses at June 30, 2011 compared to December 31, 2010. Non-cash items were primarily associated with deferred income taxes, stock-based compensation expense, depreciation and amortization, primarily from acquisition-related intangible assets and amortization of debt discount.

Net cash provided by operating activities for the six months ended June 30, 2010, was \$292.0 million, resulting from net income of \$168.5 million, net favorable changes in working capital of \$27.7 million, and a net favorable impact of \$95.8 million for non-cash items not affecting cash flows. Non-cash items include deferred income taxes, stock-based compensation expense, depreciation and amortization, primarily from acquisition-related intangible assets, amortization of debt discount and loss on conversions of our convertible notes. The changes in working capital for the six months ended June 30, 2010, were related to a \$123.8 million increase in accounts payable, accrued expenses and other current liabilities, partially offset by an \$85.5 million increase in accounts receivable. The increase in these working capital balances was primarily related to seasonality and increases in business volume. Our bookings and revenues are generally higher in the second quarter of the year than in the fourth quarter of the year which typically results in higher accounts receivable, deferred merchant bookings, accounts payable and accrued expenses at June 30, 2010 compared to December 31, 2009. Deferred merchant bookings have also increased for the TravelJigsaw merchant business since its acquisition in May 2010.

Net cash used in investing activities was \$100.1 million for the six months ended June 30, 2011. Investing activities were affected by payments of \$67.1 million for acquisitions, principally related to contingent consideration associated with the 2007 acquisition of Agoda, and \$33.8 million paid to settle derivative contracts, partially offset by the net proceeds from purchases and sales of investments of \$18.8 million. Net cash used in investing activities was \$419.6 million for the six months ended June 30, 2010. Investing activities were affected by \$326.5 million net purchase of marketable securities and a payment of \$111.0 million for acquisitions and other equity investments, net of cash acquired, partially offset by \$28.2 million net proceeds from foreign currency forward contracts. Cash invested in purchases of property and equipment was \$18.1 million and \$10.2 million for the six months ended June 30, 2011 and 2010, respectively.

Net cash used by financing activities was approximately \$155.8 million for the six months ended June 30, 2011. The cash used in financing activities during the six months ended June 30, 2011 was primarily related to treasury stock purchases of \$158.7 million, approximately \$13.0 million spent to repurchase a portion of the shares

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underlying noncontrolling interests in TravelJigsaw, and \$0.2 million of principal paid upon the conversion of senior notes, partially offset by \$3.9 million of proceeds from the exercise of employee stock options and \$12.2 million of excess tax benefits from stock-based compensation. Net cash provided by financing activities was approximately \$293.0 million for the six months ended June 30, 2010. The cash provided by financing activities during the six months ended June 30, 2010 was primarily related to proceeds from the issuance of convertible senior notes with an aggregate principal amount of \$575.0 million, \$23.5 million of proceeds from the exercise of employee stock options, \$2.3 million of excess tax benefits from stock-based compensation and proceeds of \$4.3 million from the sale of shares of TravelJigsaw to certain TravelJigsaw managers, partially offset by \$173.4 million paid upon the conversion of senior notes, \$125.4 million of treasury stock purchases and \$13.3 million of debt issuance costs.

In September 2007, we entered into a \$175.0 million five-year committed revolving credit facility with a group of lenders, which is secured, subject to certain exceptions, by a first-priority security interest on substantially all of our assets and related intangible assets located in the United States. In addition, our obligations under the revolving credit facility are guaranteed by substantially all of the assets and related intangible assets of our material direct and indirect domestic and foreign subsidiaries. Borrowings under the revolving credit facility will bear interest, at our option, at a rate per annum equal to the greater of (a) JPMorgan Chase Bank, National Association's prime lending rate and (b) the federal funds rate plus ½ of 1%, plus an applicable margin ranging from 0.25% to 0.75%; or at an adjusted LIBOR for the interest period in effect for such borrowing plus an applicable margin ranging from 1.25% to 1.75%. Undrawn balances available under the revolving credit facility are subject to commitment fees at the applicable rate ranging from 0.25% to 0.375%.

The revolving credit facility provides for the issuance of up to \$50.0 million of letters of credit as well as borrowings on same-day notice, referred to as swingline loans, which are available in U.S. Dollars, Euros, British Pounds Sterling and any other foreign currency agreed to by the lenders. The proceeds of loans made under the facility will be used for working capital and general corporate purposes. As of June 30, 2011, there were no borrowings outstanding under the facility and we have issued approximately \$1.6 million of letters of credit under the revolving credit facility.

Since the contingent conversion threshold for the 1.25% Convertible Senior Notes due 2013 was exceeded as of June 30, 2011, these notes are convertible at the option of the holders. If the holders elect to convert, we will be required to pay the aggregate principal amount in cash and we will deliver cash or shares of common stock, at our option, for the conversion value in excess of the aggregate principal amount. We would likely fund our conversion obligations with cash and cash equivalents, short-term investments and borrowings under our revolving credit facility.

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 future financial condition or results of operations. If additional funds were raised through the issuance of equity securities, the percentage ownership of our then current stockholders would be diluted. There are no assurances that we will generate sufficient cash flow from operations in the future, that revenue growth or sustained profitability will be realized or that future borrowings or equity sales will be available in amounts sufficient to make anticipated capital expenditures, finance our strategies or repay our indebtedness.

### *Contingencies*

A number of jurisdictions have initiated lawsuits against us related to, among other things, the payment of hotel occupancy and other taxes (i.e., state and local sales tax). In addition, a number of municipalities have initiated audit proceedings, issued proposed tax assessments or started inquiries relating to the payment of hotel occupancy and other taxes. To date, the majority of taxing jurisdictions in which we facilitate the making of hotel room reservations have not asserted that taxes are due and payable on our U.S. "merchant" hotel business. With respect to jurisdictions that have not initiated proceedings to date, it is possible that they will do so in the future or that they will seek to amend their tax statutes and seek to collect taxes from us on a prospective basis. See Note 13

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to the Unaudited Consolidated Financial Statements for a description of these pending cases and proceedings and Risk Factors — “Adverse application of state and local tax laws could have an adverse effect on our business and results of operation” in this Quarterly Report.

We are vigorously defending against these claims and proceedings. However, litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. An unfavorable outcome or settlement of these actions or proceedings could result in substantial liabilities for past and/or future bookings, including, among other things, interest, penalties, punitive damages and/or attorney fees and costs, which could have a material adverse effect on our cash flows in any given operating period. Also, there have been, and will continue to be, ongoing costs associated with defending our position in pending and any future cases or proceedings.

To the extent that any tax authority succeeds in asserting that we have a tax collection responsibility, or we determine that we have one, with respect to future transactions, we may collect any such additional tax obligations from our customers, which would have the effect of increasing the cost of hotel room reservations to our customers, and, consequently, could make our hotel services less competitive (i.e., versus the websites of other online travel companies or hotel company websites) and reduce hotel reservation transactions; alternatively, we could choose to reduce the compensation of our services on “merchant” hotel transactions. Either step could have a material adverse effect our business and results of operations.

As a result of this litigation and other attempts by jurisdictions to levy similar taxes, we have established a reserve which amounted to approximately \$29 million and \$26 million as of June 30, 2011 and December 31, 2010, respectively. The reserve is based on our reasonable estimate, and the ultimate resolution of these issues may be less or greater than the liabilities recorded. We believe that even if we were to suffer adverse determinations in the near term in more of the pending proceedings than currently anticipated given results to date, because of our available cash, it would not have a material impact on our liquidity.

*Off-Balance Sheet Arrangements*

As of June 30, 2011, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Sections of this Form 10-Q including, in particular, our Management's Discussion and Analysis of Financial Condition and Results of Operations above, contain forward-looking statements. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information and current foreign currency exchange rates. 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 expectations or similar expressions including, without limitation, "may," "will," "should," "could," "expects," "does not currently expect," "plans," "anticipates," "intends," "believes," "estimates," "predicts," "potential," "targets," or "continue," reflecting something other than historical fact are intended to identify forward-looking statements. The factors described below in the section entitled "Risk Factors" could cause our actual results to differ materially from those described in the forward-looking statements. 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.

### Risk Factors

*The following risk factors and other information included in this Quarterly Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently 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.*

*Booking.com, Agoda and TravelJigsaw face risks related to their growth rate and expansion, and subject us to risks that can adversely affect our operating results.*

We derive a substantial portion of our revenues from, and have significant operations, outside of the United States. Our international operations include the Netherlands-based hotel reservation service Booking.com, the Thailand-based hotel reservation service Agoda and the U.K.-based rental car reservation service TravelJigsaw. Each year since 2007, our international operations achieved significant year-over-year growth in their gross bookings (an operating and statistical metric referring to the total dollar value, generally inclusive of all taxes and fees, of all travel services purchased by our customers) and hotel room night reservations. This growth rate has contributed significantly to our growth in revenue, gross profit and earnings per share. Over time, Booking.com, Agoda and TravelJigsaw will experience a decline in their growth rate as the absolute level of their gross bookings and unit sales grow larger. Other factors may also slow the growth rates of our international operations, including, for example, worldwide economic conditions, any strengthening of the U.S. Dollar versus the Euro, declines in hotel average daily rates ("ADRs"), increases in cancellations, travel market conditions and the competitiveness of the market. A decline in the growth rates of our international operations could have a negative impact on our future revenue and earnings per share growth rates and, as a consequence, our stock price.

The strategy of Booking.com, Agoda and TravelJigsaw involves rapid expansion into regions around the world, including Europe, Asia-Pacific, North America, South America and elsewhere, many of which have different customs, different levels of customer acceptance of the Internet and different legislation, regulatory environments, tax laws and levels of political stability. In addition, compliance with foreign legal, regulatory or tax requirements will place demands on our time and resources, and we may nonetheless experience unforeseen and potentially adverse legal, regulatory or tax consequences. If Booking.com, Agoda and TravelJigsaw are unsuccessful in rapidly expanding into other countries, our business, results of operations and financial condition would be adversely affected.

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*We are dependent on the travel industry.*

Our financial prospects are significantly dependent upon our sale of travel services. Travel, including hotel room reservations, rental car reservations and airline tickets, is dependent on discretionary spending levels. As a result, sales of travel services tend to decline during general economic downturns and recessions. Accordingly, the recent worldwide recession led to a weakening in the fundamental demand for our services and an increase in the number of customers who cancelled existing travel reservations with us. In addition, unforeseen events beyond our control, such as worldwide recession, higher oil prices, terrorist attacks, unusual weather patterns, natural disasters such as earthquakes, hurricanes, tsunamis, volcanic eruptions (such as the April 2010 eruption of a volcano in Iceland), travel related health concerns including pandemics and epidemics such as Influenza H1N1, avian bird flu and SARS, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel related accidents or the withdrawal from our system of a major hotel supplier or airline, could adversely affect our business and results of operations.

For example, in early 2011, Japan was struck by a major earthquake, tsunami and nuclear emergency. Japan is an important source of travel demand for Agoda, and these crises have had an adverse impact on travel demand originating in Japan. In addition, in early 2010, civil unrest in Thailand, a key market for our Agoda business and the Asian business of Booking.com, negatively impacted booking volumes in this market at the time. Clashes involving Thai security forces, anti-government demonstrators and groups supporting the government resulted in violence in various locations in Bangkok, causing the temporary relocation of Agoda's Thailand-based operations. Thailand has experienced disruptive civil unrest in prior years as well and continued or future civil or political unrest could further disrupt our business and operations in Thailand.

In addition, work stoppages or labor unrest at any of the major airlines could materially adversely affect the airline industry and, as a consequence, have a material adverse effect on our business, results of operations and financial condition.

*We are exposed to fluctuations in currency exchange rates.*

As a result of the growth of Booking.com and Agoda, and the acquisition of TravelJigsaw, we are conducting a significant portion of our business outside the United States and are reporting our results in U.S. Dollars. As a result, we face exposure to adverse movements in currency exchange rates as the financial results of our international operations are translated from local currency (principally the Euro and the British Pound Sterling) into U.S. Dollars upon consolidation. In addition, with respect to our international merchant bookings, because there is a difference in the timing of when we receive payment from a customer (up front) and when we pay the travel supplier (often after the hotel stay or rental car pickup), we have currency exchange exposure on these transactions. Our international operations contributed approximately \$612.9 million and \$1.0 billion to our revenues for the three and six months ended June 30, 2011, respectively, which compares to \$322.6 million and \$538.3 million for the three and six months ended June 30, 2010, respectively, (year-over-year growth of approximately 90% and 86%, respectively). Revenue attributable to our international operations increased on a local currency basis by approximately 71% and 74% in the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010. Booking.com, Agoda and TravelJigsaw also face foreign exchange risk as their foreign-denominated revenues, expenses, receivables and payables are translated into their respective functional currencies.

A strengthening of the Euro increases our Euro-denominated net assets, gross bookings, gross profit, operating expenses, and net income as expressed in U.S. Dollars, while a weakening of the Euro decreases our Euro-denominated net assets, gross bookings, gross profit, operating expenses, and net income as expressed in U.S. Dollars. Greece, Ireland, Portugal and certain other European Union countries with high levels of sovereign debt have had difficulty refinancing that debt. Concern around devaluation or abandonment of the Euro common currency, or that sovereign default risk may be more widespread and could include the U.S., has led to significant volatility in the exchange rate between the Euro, the U.S. dollar and other currencies over the past several years.

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

We compete with both online and traditional sellers of the services we offer. The market for the services we offer is intensely competitive, and current and new competitors can launch new sites at a relatively low cost. We may not be able to effectively compete with industry conglomerates such as Expedia, Google or Microsoft, each of which may have access to significantly greater and more diversified resources than we do.

We currently or potentially compete with a variety of companies with respect to each service we offer. With respect to our travel services, these competitors include, but are not limited to:

- Internet travel services such as Expedia, Hotels.com, Hotwire and Venere, which are owned by Expedia; Travelocity, lastminute.com and Zuji, which are owned by the Sabre Group; Orbitz.com, Cheaptickets, ebookers, HotelClub and RatesToGo, which are currently owned by Orbitz Worldwide; laterooms and asiarooms owned by Tui Travel; and Gullivers, octopustravel, Superbreak, hotel.de, Hotel Reservation Service, AutoEurope, Holiday Auto, Car Trawler, Ctrip, MakeMyTrip, Rakuten and Wotif;
- travel suppliers such as airlines, hotel companies and rental car companies, many of which have their own branded websites to which they drive business;
- large online portal, social networking, group buying and search companies, such as Google, Yahoo! (including Yahoo! Travel), Bing (including Bing Travel), Facebook and Groupon;
- traditional travel agencies, wholesalers and tour operators;
- online travel search sites such as Kayak.com, Trivago.com, Mobissimo.com, FareChase.com and HotelsCombined (each sometimes referred to as “meta-search” sites) and travel research sites that have search functionality, such as TripAdvisor, Travelzoo and Cheapflights.com; and
- operators of travel industry reservation databases such as Galileo, Travelport, Amadeus and Sabre.

Large, established Internet search engines with substantial resources and expertise in developing online commerce and facilitating Internet traffic are creating — and intend to further create — inroads into online travel, both in the U.S. and internationally. For example, earlier this year, the U.S. Department of Justice approved Google’s acquisition of ITA Software, Inc., a major flight information software company, which will allow Google to pursue the creation of new flight search tools that will enable users to find fares, schedules and availability directly on Google. Google has also invested in HomeAway, a publicly traded vacation home rental service, and launched “Hotel Finder” in July 2011, a utility that allows users to search and compare hotel accommodations based on parameters set by the user. In addition, Microsoft has launched *Bing Travel*, a “meta-search” site, which searches for airfare and hotel reservations online and predicts the best time to purchase them. “Meta-search” sites leverage their search technology to aggregate travel search results for the searcher’s specific itinerary across supplier, travel agent and other websites and, in many instances, compete directly with us for customers. Some meta-search sites, such as Kayak.com, which recently began offering its users the ability to make hotel reservations directly on its website, may evolve into more traditional online travel sites. These initiatives, among others, illustrate Google’s and Bing’s clear intention to more directly appeal to travel consumers by showing consumers more detailed travel search results, including specific information for travelers’ own itineraries, which could lead to suppliers or others gaining a larger share of Google’s or Bing’s traffic or may ultimately lead to search engines maintaining transactions within their own websites. If Google, as the single largest search engine in the world, or Bing, or other leading search engines refer significant traffic to these or other travel services that they develop in the future, it could result in, among other things, more competition from supplier websites and higher customer acquisition costs for third-party sites such as ours and could have a material adverse effect on our business, results of operations and financial condition.

Hotels are increasingly offering hotel room reservations through “daily deal” websites such as Groupon and Living Social, which sell coupons to customers at a substantial discount. Expedia recently entered into a partnership with Groupon to sell hotel room reservations to Groupon customers under the “Groupon Getaways” brand name. If these new services are successful, we may experience less demand for our services and are likely to face more competition for access to the limited supply of discounted hotel room rates.

Competition in domestic online travel remains intense and traditional online travel companies are creating new promotions and consumer value features in an effort to gain competitive advantage. In particular, the competition to provide “opaque” hotel services to consumers, an area in which priceline.com has been a leader, has become more intense over the recent past. For example, in the fourth quarter of 2010, Expedia began making opaque hotel room reservations available on its principal website under the name “Expedia Unpublished Rates” and has been supporting the initiative with a national television advertising campaign. In addition, in 2009, Travelocity launched an opaque price-disclosed hotel booking service that allows customers to book rooms at a discount. As with our *Name Your Own Price*<sup>®</sup> hotel booking service, for these services, the name of the hotel is not disclosed until after purchase. We believe these new offerings, in particular Expedia Unpublished Rates, have adversely impacted the market share and year-over-year growth rate for our opaque hotel service. If Expedia or Travelocity are successful in growing their opaque hotel service, we may have less consumer demand for our opaque hotel service over time and we are likely to face more competition for access to the limited supply of discounted hotel room rates. As a result, we believe our share of the discount hotel market in the U.S. could further decrease.

We believe that for a number of reasons, including the recent significant year-over-year increase in retail airfares, consumers are engaging in increased shopping behavior before making a travel purchase than they engaged in previously. Increased shopping behavior reduces our advertising efficiency and effectiveness because traffic becomes less likely to result in a purchase on our website, and such traffic is more likely to be obtained through paid online advertising channels than through free direct channels.

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Many airline, hotel and rental car suppliers, including suppliers with which we conduct business, are focusing on driving online demand to their own websites in lieu of third-party distributors such as us. Certain suppliers have attempted to charge additional fees to customers who book airline reservations through an online channel other than their own website. Furthermore, some airlines may distribute their tickets exclusively through their own websites. Suppliers who sell on their own websites typically do not charge a processing fee, and, in some instances, offer advantages such as web-only fares, bonus miles or loyalty points, which could make their offerings more attractive to consumers than models like ours.

Many of our current and potential competitors, including Internet directories, search engines and large traditional retailers, have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, personnel, technical and other resources than we do. Some of these competitors may be able to secure services on more favorable terms than we can. In addition, many of these competitors may be able to devote significantly greater resources to:

- marketing and promotional campaigns;
- attracting traffic to their websites;
- attracting and retaining key employees;
- securing vendors and supply; and
- website and systems development.

Increased competition could result in reduced operating margins, loss of market share and damage to our brands. 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.

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*We are dependent on certain suppliers.*

Our arrangements with the hotel, airline and rental car suppliers that participate in our system — either through our *Name Your Own Price*<sup>®</sup> or price-disclosed service — generally do not require them to provide any specific quantity of hotel room reservations, airline tickets or rental cars, or to make room reservations, tickets or cars available for any particular route, in any geographic area or at any particular price. During the course of our business, we are in continuous dialogue with our major suppliers about the nature and extent of their participation in our system. The significant reduction on the part of any of our major suppliers of their participation in our system for a sustained period of time or their complete withdrawal could have a material adverse effect on our business, results of operations and financial condition.

During the recent worldwide recession, the hotel industry experienced a significant decrease in occupancy rates and ADRs, and an increase in reservation cancellation rates. While lower occupancy rates have historically resulted in hotel suppliers increasing their distribution of hotel room reservations through third-party intermediaries such as us, our remuneration for hotel transactions changes proportionately with room price, and therefore, lower ADRs generally have a negative effect on our hotel business and a negative effect on our gross profit.

In addition, certain hotels have begun initiatives to reduce margins received by third party intermediaries on retail merchant transactions, which is the primary method we employ to distribute retail hotel room reservations in the United States. Many hotels distribute room reservations through their own websites and therefore might increase negotiated rates for merchant rate hotel room reservations sold through our merchant price-disclosed hotel service, decreasing the margin available to us. While our merchant price-disclosed hotel agreements with our leading hotel suppliers provide for specified discounts, if one or more participating hotels were to require us to limit our merchant margins, upon contract renewal or otherwise, it could have an adverse effect on our business, results of operations and financial condition.

Historically, for our merchant business in the U.S., we have relied on fees paid to us by GDSs for travel bookings made through GDSs for a portion of our gross profit. We rebate certain GDS costs to certain suppliers in exchange for contractual considerations such as those relating to pricing and availability, and expect to continue to do so in the future. Suppliers put pressure on us to reduce our aggregate compensation and book through lower cost channels to receive full content and avoid penalties. We have agreements with a number of suppliers to obtain access to content, and are in continuing discussions with others to obtain similar access. If we were denied access to full content or had to impose service fees on our services, it could have a material adverse effect on our business, results of operations and financial condition.

With respect to our airline suppliers, the airline industry has experienced a shift in market share from full-service carriers to low-cost carriers that focus primarily on discount fares to leisure destinations and we expect this trend to continue. Some low-cost carriers, such as Southwest, have not historically distributed their tickets through us or other third-party intermediaries. In addition, certain airlines have significantly limited or eliminated sales of airline tickets through opaque channels, preferring to consistently show the lowest available price on their own website. Since the start of the worldwide recession, domestic airline capacity has been significantly reduced, which reduces the number of airline tickets available to our customers and the amount of discounted airline tickets available for our *Name Your Own Price*<sup>®</sup> business. During 2010 and the first half of 2011, airlines significantly increased their average fares over prior periods, which adversely impacts travel demand. Reduced airline capacity and lower travel demand negatively impact our priceline.com air business, which in turn has negative repercussions on our priceline.com hotel and rental car businesses, and could have a material adverse effect on our business, results of operations and financial condition. Conversely, decreased airfares can adversely impact our *Name Your Own Price*<sup>®</sup> airline tickets sales by reducing the amount of absolute dollar savings as compared to retail airline tickets.

We could be adversely affected by changes in the airline industry, and, in many cases, we will have no control over such changes or their timing. Recently, there has been significant domestic airline industry consolidation, as evidenced by mergers of United Air Lines with Continental Airlines; Delta Air Lines with Northwest Airlines; and AirTran with Southwest Airlines. If one of our major airline suppliers merges or consolidates with, or is acquired by, another company that either does not participate in the priceline.com system or that participates on substantially lower levels, the surviving company may elect not to participate in our system or to participate at lower levels than the previous supplier. For example, in May 2011, Southwest Airlines announced that it completed its acquisition of AirTran. AirTran has participated in our *Name Your Own Price*<sup>®</sup> system on only a limited basis, but Southwest Airlines has never participated. In fact, Southwest Airlines does not currently distribute airline tickets through any online travel agent or permit its fares to appear in comparative fare displays. If AirTran fares are taken out of the online marketplace as a result of this acquisition, those fares would no longer be available to us. Similarly, United Air Lines has historically participated in our *Name Your Own Price*<sup>®</sup> system at a high level, while Continental Airlines has historically participated at a much lower level. We cannot predict the effects that the



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acquisition of AirTran by Southwest Airlines or the merger of United Air Lines with Continental Airlines will have on our business.

In addition, in the event that one of our major suppliers voluntarily or involuntarily declares bankruptcy and is subsequently unable to successfully emerge from bankruptcy, and we are unable to replace such supplier, our business would be adversely affected. For example, in April 2008, Aloha Airlines and ATA Airlines each ceased operations and we experienced an increase in credit card chargebacks from customers with tickets on those airlines. To the extent major U.S. airlines that participate in our system declare bankruptcy or cease operations, they may be unable or unwilling to honor tickets sold for their flights. Our policy in such event is to direct customers seeking a refund or exchange to the airline, and not to provide a remedy ourselves. Because we are the merchant-of-record on sales of *Name Your Own Price*<sup>®</sup> airline tickets to our customers, however, we could experience a significant increase in demands for refunds or credit card chargebacks from customers, which could materially adversely affect our operations and financial results. In addition, because *Name Your Own Price*<sup>®</sup> customers do not choose their airlines, hotels or rental car companies, the bankruptcy of a major airline, hotel or rental car company, or even the possibility of such a bankruptcy, could discourage customers from using our *Name Your Own Price*<sup>®</sup> system to book travel.

Some travel suppliers are encouraging third-party travel intermediaries, such as us, to develop technology to bypass the traditional GDSs, such as enabling direct connections to the travel suppliers or using alternative global distribution methods. For example, in 2011, we enabled a direct connection with American Airlines. During 2011, American content was temporarily unavailable on Expedia and Orbitz due to disputes related to enabling a direct connection. We believe that this is consistent with an effort on the part of American Airlines, and the airline industry in general, to reduce distribution costs and could be indicative of the airlines in general becoming more aggressive in requiring online travel agents to implement direct connections. Development and implementation of the technology to enable additional direct connections to travel suppliers could cause us to incur additional operating expenses, increase the frequency/duration of system problems and delay other projects. In addition, any additional migration toward direct connections would reduce the compensation we receive from GDSs.

Many current agreements between major U.S. airlines and major GDSs are due to expire during or at the end of 2011. It is unclear whether and to what extent any new agreement (or extension or renewal of any existing agreement) between any major U.S. airline and any major GDS will enable GDS subscribers, such as us, equal access to the fares, inventory and content provided by such carrier through the GDS. Furthermore, it is possible that a dispute between an airline and a GDS could lead to an airline removing its fares from the GDS. Despite the fact that such a dispute may not involve us, our business could be adversely affected if we are denied access to airfares in a major GDS.

The loss of any major airline participant in our *Name Your Own Price*<sup>®</sup> system would result in reduced opacity for this service, which could result in other major airlines electing to terminate their participation in the *Name Your Own Price*<sup>®</sup> system, which would further negatively impact our business, results of operations and financial condition. In such event, if we are unable to divert sales to other suppliers, our business, results of operations and financial condition may be adversely affected.

In addition, given the concentration of the airline industry, particularly in the domestic market, 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.

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Each of Hertz and Avis has recently pursued strategies to acquire the Dollar-Thrifty Automotive Group. The merger or acquisition of the Dollar-Thrifty Automotive Group by Hertz, Avis or another rental car company could result in a decrease of rental car reservations available to our rental car service. If another major rental car supplier merges or consolidates with, or is acquired by, another company that either does not participate in the priceline.com system or that participates on substantially lower levels, the surviving company may elect not to participate in our system or to participate at lower levels than the previous supplier. The loss of any rental car supplier participant in our *Name Your Own Price*<sup>®</sup> system could result in other rental car suppliers electing to terminate or reduce their participation in the *Name Your Own Price*<sup>®</sup> system, which would negatively impact our business, results of operations and financial condition. Similarly, industry consolidation and any resulting reduction in rental car capacity would limit the amount of availability for TravelJigsaw's rental car service. Furthermore, many major rental car companies are highly leveraged and the inability of a rental car company to refinance its debt, restructure its operations or emerge from a bankruptcy could lead to a reduction in rental car supply made available to us. In addition, fewer independent suppliers reduces opacity and competition among suppliers. In such event, if we are unable to divert sales to other suppliers, our business, results of operations and financial condition may be adversely affected.

In addition, any disruption in the supply of vehicles or the ability to dispose of vehicles by rental car companies could impact the ability of the rental car companies to match their fleet supply with demand, which could adversely impact our business. If the industry is faced with a shortage of vehicles, rental car companies may further reduce the number of car reservations they distribute through our service or increase the negotiated rates at which they are willing to provide car reservations. For example, since the recent worldwide recession, the rental car industry has generally reduced its fleet capacity, which has limited the amount of discounted rental car days available for our *Name Your Own Price*<sup>®</sup> rental car service.

In addition, rental car rates during the three months ended June 30, 2011 were generally lower than in the same period in 2010. Because rental car days are typically less expensive than airline tickets or hotel room night reservations, a reduction in retail rental car rates has a disproportionately adverse effect on sales of *Name Your Own Price*<sup>®</sup> rental car days since customers may be less likely to accept the trade-offs associated with that service for lower absolute savings.

*Adverse application of state and local tax laws could have an adverse effect on our business and results of operation.*

A number of jurisdictions have initiated lawsuits against on-line travel companies, including us, related to, among other things, the payment of hotel occupancy and other taxes (i.e., state and local sales tax). In addition, a number of municipalities have initiated audit proceedings, issued proposed tax assessments or started inquiries relating to the payment of hotel occupancy and other taxes. See Note 13 to the Unaudited Consolidated Financial Statements for a description of these pending cases and proceedings. Additional state and local jurisdictions are likely to assert that we are subject to, among other things, hotel occupancy and other taxes (i.e., state and local sales tax) and could seek to collect such taxes, either retroactively or prospectively, or both.

In connection with some hotel occupancy tax audits and assessments, we may be required to pay any assessed taxes, which amounts may be substantial, prior to being allowed to contest the assessments and the applicability of the ordinances in judicial proceedings. This requirement is commonly referred to as "pay to play" or "pay first." Payment of these amounts, if any, is not an admission that we believe that we are subject to such taxes and, even if such payments are made, we intend to continue to assert our position vigorously.

Litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. For example, in October 2009, a jury in a San Antonio class action found that we and the other online travel companies that are defendants in the lawsuit "control" hotels for purposes of the local hotel occupancy tax ordinances at issue and are, therefore, subject to the requirements of those ordinances. An unfavorable outcome or settlement of pending litigation may encourage the commencement of additional litigation,

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audit proceedings or other regulatory inquiries. In addition, an unfavorable outcome or settlement of these actions or proceedings could result in substantial liabilities for past and/or future bookings, including, among other things, interest, penalties, punitive damages and/or attorney fees and costs. There have been, and will continue to be, substantial ongoing costs, which may include “pay to play” payments, associated with defending our position in pending and any future cases or proceedings. An adverse outcome in one or more of these unresolved proceedings could have a material adverse effect on our business and results of operations and could be material to our earnings or cash flows in any given operating period.

To the extent that any tax authority succeeds in asserting that we have a tax collection responsibility, or we determine that we have one, with respect to future transactions, we may collect any such additional tax obligation from our customers, which would have the effect of increasing the cost of hotel room reservations to our customers and, consequently, could make our hotel service less competitive (i.e., versus the websites of other online travel companies or hotel company websites) and reduce hotel reservation transactions; alternatively, we could choose to reduce the compensation for our services on “merchant” hotel transactions. Either step could have a material adverse effect on our business and results of operations.

In many of the judicial and other proceedings initiated to date, municipalities seek not only historical taxes that are claimed to be owed on our gross profit, but also, among other things, interest, penalties, punitive damages and/or attorney fees and costs. The October 2009 jury verdict in the San Antonio litigation and the related proceedings to determine, among other things, the amount of penalties, interest and attorney’s fees that could be owed by us illustrate that any liability associated with hotel occupancy tax matters is not constrained by our liability for tax owed on our historical gross profit.

We will continue to assess the risks of the potential financial impact of additional tax exposure, and to the extent appropriate, we will reserve for those estimates of liabilities.

*Fluctuations in our financial results make quarterly comparisons and financial forecasting difficult.*

Our revenues and operating results have varied significantly from quarter to quarter because our business experiences seasonal fluctuations, which reflect seasonal trends for the travel services offered by our websites. Traditional leisure travel bookings in Europe and the United States are higher in the second and third calendar quarters of the year as consumers take spring and summer vacations. In the first and fourth quarters of the calendar year, demand for travel services in Europe and the United States generally declines from a seasonal perspective. A meaningful amount of retail gross bookings are generated early in the year, as customers plan and reserve their spring and summer vacations in the Northern Hemisphere. However, we will not recognize associated revenue until future quarters when the travel occurs. From a cost perspective, we expense the substantial majority of our advertising activities as they are incurred, which is typically in the quarter in which bookings are generated. As a result, we typically experience our highest levels of profitability in the second and third quarters of the year, which is when we experience the highest levels of booking and travel consumption for the year for our North American and European businesses. However, we experience the highest levels of booking and travel consumption for our Asia-Pacific and South American businesses in the first and fourth quarters. Therefore, if these businesses continue to grow faster than our North American and European businesses, our operating results for the first and fourth quarters of the year may become more significant over time as a percentage of full year operating results.

Our revenues and operating results may continue to vary significantly from quarter to quarter because of these factors. As a result, quarter-to-quarter comparisons of our revenues and operating results may not be meaningful. For example, over the last several years we have experienced strong growth in the number of hotel room nights booked through our hotel reservation services. However, given the sheer size of our hotel reservation business, we believe it is highly likely that our year-over-year room night reservation growth rates will generally decelerate on a quarterly sequential basis in future periods.

Because of these fluctuations and uncertainties, our operating results may fail to meet the expectations of securities analysts and investors. If this happens, the trading price of our common stock would be adversely affected.

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*There can be no assurance that we can maintain our “Innovation Box Tax” benefit.*

Effective January 1, 2010, the Netherlands modified its corporate income tax law related to income generated from qualifying “innovative” activities (the “Innovation Box Tax”). Earnings that qualify for the Innovation Box Tax will effectively be taxed at the rate of 5% rather than the Dutch statutory rate of 25.0%. Booking.com obtained a ruling from the Dutch tax authorities in February 2011 confirming that a portion of its earnings (“qualifying earnings”) is eligible for Innovation Box Tax treatment. The ruling from the Dutch tax authorities is valid from January 1, 2010 through December 31, 2013 (the “Initial Period”).

In order to be eligible for Innovation Box Tax treatment, Booking.com must, among other things, apply for and obtain a research and development (“R&D”) certificate from a Dutch governmental agency every six months confirming that the activities that Booking.com intends to be engaged in over the subsequent six month period are “innovative.” Should Booking.com fail to secure such a certificate in any such period — for example, because the governmental agency does not view Booking.com’s new or anticipated activities as “innovative” — or should this agency determine that the activities contemplated to be performed in a prior period were not performed as contemplated or did not comply with the agency’s requirements, Booking.com may lose its certificate and, as a result, the Innovation Box Tax benefit may be reduced or eliminated.

After the Initial Period, Booking.com intends to reapply for continued Innovation Box Tax treatment for future periods. There can be no assurance that Booking.com’s application will be accepted, or that the amount of qualifying earnings or applicable tax rates will not be reduced at that time. In addition, there can be no assurance that the tax law will not change in 2011 and/or future years resulting in a reduction or elimination of the tax benefit.

The loss of the Innovation Box Tax benefit in future periods would adversely impact our results of operations.

*Our processing, storage, use and disclosure of personal data exposes us to risks of internal or external security breaches and could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.*

The security of data when engaging in electronic commerce is essential in maintaining consumer and supplier confidence in our services. 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 customers who use certain of our services to guarantee their offers with their credit card, either online or, in some instances, through our toll-free telephone service. It is possible that advances in computer circumvention capabilities, new discoveries or other developments, including our own acts or omissions, could result in a compromise or breach of customer transaction data.

We cannot guarantee that our existing security measures will prevent security breaches or attacks. A party (whether internal, external, an affiliate or unrelated third party) that is able to circumvent our security systems could steal customer information or transaction data, proprietary information or cause significant interruptions in our operations. For instance, from time to time, we have experienced “denial-of-service” type attacks on our system that have made portions of our websites slow or unavailable for periods of time. In addition, several major corporations experienced well-publicized online security breaches during the first half of 2011, including among others, Sony, the data security firm RSA, Lockheed Martin, the email wholesaler Epsilon, the Fox broadcast network and Citigroup. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches, and reductions in website availability and response time could cause loss of substantial business volumes during the occurrence of any such incident. These issues are likely to become more difficult as we expand the number of places where we operate and as the tools and techniques used in such attacks become more advanced. Security breaches could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. Security breaches could also cause customers and potential customers to lose confidence in our security, which would have a negative effect on the value of our brand. Our insurance policies carry low coverage limits, and would likely not be adequate to reimburse us for losses caused by security breaches.

Companies that we have acquired, such as Booking.com, Agoda and TravelJigsaw, and that we may acquire in the future, may employ security and networking standards at levels we find unsatisfactory. The process of enhancing infrastructure to attain improved security and network standards may be time consuming and expensive and may require resources and expertise that are difficult to obtain. Such acquisitions increase the number of potential vulnerabilities, and can cause delays in detection of an attack, as well as the timelines of recovery from any given attack. Failure to raise any such standards that we find unsatisfactory could expose us to security breaches of, among other things, personal customer data and credit card information that would have an adverse impact on our business, results of operations and financial condition.

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, our services as a means of conducting commercial transactions. Additionally, security breaches at third parties such as supplier or distributor systems upon which we rely could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. Some of our business is conducted with third party marketing affiliates, which may generate travel reservations through our infrastructure or through other systems. A security breach at such a third party could be perceived by consumers as a security breach of our systems and could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such third parties may not comply with applicable disclosure requirements, which could expose us to liability.

In our processing of travel transactions, we receive and store a large volume of personally identifiable data. This data is increasingly subject to legislation and regulations in numerous jurisdictions around the world, including the Commission of the European Union through its Data Protection Directive and variations of that directive in the member states of the European Union. This government action is typically intended to protect the privacy of personal data that is collected, processed and transmitted in or from the governing jurisdiction. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations and financial condition.

In addition, in the aftermath of the terrorist attacks of September 11, 2001 in the United States, government agencies have been contemplating or developing initiatives to enhance national and aviation security, such as the Transportation Security Administration's Computer-Assisted Passenger Prescreening System, known as CAPPS II. These initiatives may result in conflicting legal requirements with respect to data handling. As privacy and data protection has become a more sensitive issue, we may also become exposed to potential liabilities as a result of differing views on the privacy of travel data. Travel businesses have also been subjected to investigations, lawsuits and adverse publicity due to allegedly improper disclosure of passenger information. These and other privacy developments that are difficult to anticipate could adversely impact our business, results of operations and financial condition.

*Proposed "Cookie" Laws Could Negatively Impact the Way We Do Business.*

In June 2011, the Dutch Parliament adopted a bill to amend the Dutch Telecommunications Act. One of the provisions of the bill is a new regulation on the use of "cookies." A "cookie" is a text file that is stored on a user's web browser by a website. Cookies are common tools used by thousands of websites, such as Booking.com and priceline.com, to, among other things, store or gather information (i.e., remember logon details so a user does not have to re-enter them when revisiting a site) and enhance the user experience on a website. Cookies are valuable tools for websites like Booking.com and priceline.com to improve and increase customer conversion on their websites.

This bill would require websites, such as Booking.com, to provide Dutch users with clear and comprehensive information about the storage and use of certain cookies and obtain prior consent from the user before placing certain cookie on a user's web browser. Consent could be accomplished by asking a user to check a box to consent to the use of the cookies before proceeding on the website ("opt-in" consent).

The bill must be adopted by the Dutch Senate before it will become law; the Dutch Senate is currently scheduled to address the bill in September 2011. The bill is intended to implement certain provisions of the European Union's ePrivacy Directive, which requires member countries to adopt regulations governing the use of "cookies" by websites servicing customers from the European Union. If the Dutch bill is adopted by the Senate in its current form or if European Union countries adopt similarly restrictive "cookie" regulations that require "opt-in" consent before certain cookies can be placed on a user's web browser, it might adversely affect our ability, in particular, Booking.com's ability, to service certain of our customers in the manner we currently do and impair our ability to continue to improve and optimize performance on our websites. As a result, these regulations, if adopted, could have a material adverse effect on our business, results of operations and financial condition.

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*Our stock price is highly volatile.*

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

- operating results that vary from the expectations of securities analysts and investors;
- quarterly variations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- fluctuations in currency exchange rates, particularly between the U.S. Dollar and the Euro;
- announcements of technological innovations or new services by us or our competitors;
- changes in our capital structure;
- changes in market valuations of other Internet or online service companies;
- announcements by us or our competitors of price reductions, promotions, significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- loss of a major supplier 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 geographically;
- announcements by third parties of significant claims or proceedings against us or adverse developments in pending proceedings;
- occurrences of a significant security breach;
- 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 significantly. In addition, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

The trading prices of Internet company stocks in general, including ours, have experienced extreme price and volume fluctuations. To the extent that the public's perception of the prospects of Internet or e-commerce companies is negative, our stock price could decline 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. Negative market conditions could adversely affect our ability to raise additional capital.

We are defendants in 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. This additional litigation could result in substantial costs and divert management's attention and resources.

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*Our business could be negatively affected by changes in search engine algorithms and dynamics or termination of traffic-generating arrangements.*

We utilize Internet search engines and other travel demand aggregation websites, principally through the purchase of travel-related keywords, to generate traffic to our websites. Booking.com, Agoda and TravelJigsaw, in particular, rely to a significant extent upon Google to generate business and, to a much lesser extent, other search engines and other travel demand aggregation websites. Search engines such as Google frequently update and change the logic which determines the placement and display of results of a user's search, such that the placement of links to our sites, and particularly those of Booking.com, Agoda, TravelJigsaw and their affiliates, can be negatively affected. In a similar way, a significant amount of Booking.com, Agoda and TravelJigsaw's business is directed to our own websites through participation in pay-per-click advertising campaigns on Internet search engines whose pricing and operating dynamics can experience rapid change commercially, technically and competitively. In addition, we purchase web traffic from a number of sources, including some operated by our competitors, in the form of pay-per-click arrangements that can be terminated with little or no notice. If one or more of such arrangements is terminated, or if a major search engine, such as Google, changes its algorithms in a manner that negatively affects the search engine ranking of our brands or our third-party distribution partners or changes its pricing, operating or competitive dynamics in a negative manner, our business, results of operations and financial condition would be adversely affected.

In addition, Booking.com, Agoda and TravelJigsaw rely on various third party distribution channels (i.e., affiliates) to distribute hotel room reservations. Should one or more of such third parties cease distribution of Booking.com, Agoda and TravelJigsaw reservations, or suffer deterioration in its search engine ranking, due to changes in search engine algorithms or otherwise, our business could be negatively affected.

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

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. In particular, the contributions of certain key senior management in the U.S., Europe and Asia are critical to the overall management of the Company. In addition, because our European senior management's noncontrolling ownership interest was repurchased in September 2008, it may become more difficult to retain these senior managers. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees, the loss of whom could harm our business.

In addition, competition for well-qualified employees in all aspects of our business, including software engineers and other technology professionals, is intense both in the U.S. and abroad. With the recent success of our international business and the increased profile of the Booking.com business and brand, competitors have increased their efforts to hire our international employees. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business would be adversely affected. We do not maintain any key person life insurance policies.



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*Our expansion places a significant strain on our management, technical, operational and financial resources.*

We have rapidly and significantly expanded our international operations and anticipate expanding further to pursue growth of our service offerings and customer base. For example, the number of our employees worldwide has grown from less than 700 in the first quarter of 2007, to approximately 4,300 as of June 30, 2011, which growth is mostly comprised of hires by or for our international operations. Such expansion increases the complexity of our business and places a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions.

There can be no assurance that we will be able to manage our expansion effectively. Our current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage our future operations, especially as we employ personnel in multiple geographic locations. We may not be able to hire, train, retain, motivate and manage required personnel, which may limit our growth, damage our reputation, negatively affect our financial performance, and harm our business.

*Capacity constraints and system failures could harm our business.*

We rely on certain third party computer systems and third party service providers, including the computerized central reservation systems of the airline, hotel and rental car industries to satisfy demand for airline tickets and priceline.com hotel room and rental car reservations. In particular, our priceline.com travel business is substantially dependent upon the computerized reservation systems of operators of global distribution systems for the travel industry. Any interruption in these third party services systems 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 some third party service providers are terminable upon short notice and often do not provide recourse for service interruptions. In the event our arrangement with any 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, it could have a material adverse effect on our business, results of operations and financial condition.

We depend upon Chase Paymentech to process our U.S. credit card transactions; Global Collect and others to process Agoda credit card transactions; and Wright Express to provide credit card numbers which we use as a payment mechanism for merchant hotel transactions. If any of these providers were wholly or partially compromised, our cash flows could be disrupted until such a time as a replacement process could be put in place with a different vendor. As we add complexity to our systems infrastructure by adding new suppliers and distribution, our total system availability could decline and our results could suffer.

A substantial amount of our computer hardware for operating our services is currently located at the facilities of SAVVIS in New Jersey, AT&T in New York City, Equinix Europe Ltd. in London, England, Global Switch Amsterdam B.V. in the Netherlands and certain other data centers. 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. Despite any precautions we may take, the occurrence of any disruption of service due to any such misconduct, natural disaster or other unanticipated problems at the SAVVIS facility, the AT&T facility, the Equinix Europe Ltd. facility and the Global Switch Amsterdam B.V. facility, or other facilities could result in lengthy interruptions in our services. In addition, the failure by SAVVIS, Verizon, AT&T, Equinix Europe Ltd., Colt Telecom Group Limited, Verizon Business B.V., TrueServer B.V. or other communication providers 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 our services could impair our reputation, damage our brand name and have a material adverse effect on our business, results of operations and financial condition.

We do not have a completely formalized disaster recovery plan in every geographic region in which we conduct business. In the event of certain system failures, we may not be able to switch to back-up systems immediately and the time to full recovery could be prolonged. Like many online businesses, we have experienced system failures from time to time. In addition to placing increased burdens on our engineering staff, these outages create a significant amount of user questions and complaints that need to be addressed by our customer support

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personnel. Any unscheduled interruption in our service could result in an immediate loss of revenues that can be substantial, increase customer service cost and 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 systems. These steps are expensive, may reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

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

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 services,

any of which could impair our reputation, damage our brands and materially and adversely affect our revenues. While we do maintain redundant systems and hosting services for some of our business, it is possible that we could experience an interruption in our business, and we do not carry business interruption insurance sufficient to compensate us for losses that may occur.

Companies that we have acquired, such as Booking.com, Agoda and TravelJigsaw, and that we may acquire in the future, may present known or unknown capacity/stability or other types of system challenges. The process of enhancing infrastructure to attain improved capacity/scalability and other system characteristics may be time consuming and expensive and may require resources and expertise that are difficult to obtain. Such acquisitions increase potential downtime, customer facing problems and compliance problems. Failure to successfully make any such improvements to such infrastructures could expose us to potential capacity, stability, and system problems that would have an adverse impact on our business, results of operations and financial condition.

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

Until our domestic net operating loss carryforwards are utilized or expire, we do not expect to make tax payments on our U.S. income, except for U.S. federal alternative minimum tax and state income taxes. However, we expect to pay foreign taxes on our foreign income. We expect that our international operations will grow their pretax income at higher rates than our U.S. operations over the long term and, therefore, it is our expectation that our cash tax payments will increase as our international operations generate an increasing share of our pretax income.

*We may have exposure to additional tax liabilities.*

As an international corporation providing hotel reservation services around the world, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Although we believe that our tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

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Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. For example, proposals for fundamental U.S. international tax reform, such as certain proposals by President Obama's Administration, if enacted, could have a significant adverse impact on our effective tax rate.

We are also subject to non-income based taxes, such as value-added, payroll, sales, use, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. From time to time, we are under audit by tax authorities with respect to these non-income based taxes and may have exposure to additional non-income based tax liabilities.

### *Acquisitions could result in operating difficulties.*

As part of our business strategy, we acquired Booking.com Limited in September 2004, Booking.com B.V. in July 2005, Agoda in November 2007 and TravelJigsaw in May 2010. We may enter into additional business combinations and acquisitions in the future. Acquisitions may result in dilutive issuances of equity securities, use of our cash resources, incurrence of debt and amortization of expenses related to intangible assets acquired. In addition, the process of integrating an acquired company, business or technology may create unforeseen operating difficulties and expenditures. The acquisitions of Booking.com B.V., Booking.com Limited, Agoda and TravelJigsaw were accompanied by a number of risks, including, without limitation:

- the need to implement or remediate controls, procedures and policies appropriate for a larger public company at companies that prior to the acquisitions may have lacked such controls, procedures and policies;
- the difficulty of assimilating the operations and personnel of Booking.com Limited, which are principally located in Cambridge, England, Booking.com B.V., which are principally located in Amsterdam, The Netherlands, Agoda, which are principally located in Singapore and Bangkok, Thailand, and TravelJigsaw, which are principally located in Manchester, England, with and into our operations, which are headquartered in Norwalk, Connecticut;
- the potential disruption of our ongoing business and distraction of management;
- the difficulty of incorporating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to further successfully develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the impairment of relationships with customers of Booking.com B.V., Booking.com Limited, Agoda and TravelJigsaw or our own customers as a result of any integration of operations;
- the impairment of relationships with employees of Booking.com B.V., Booking.com Limited, Agoda and TravelJigsaw or our own business as a result of any integration of new management personnel;
- the potential unknown liabilities associated with Booking.com B.V., Booking.com Limited, Agoda and TravelJigsaw.

We may experience similar risks in connection with any future acquisitions. We may not be successful in addressing these risks or any other problems encountered in connection with the acquisitions of Booking.com B.V., Booking.com Limited, Agoda or TravelJigsaw, or that we could encounter in future acquisitions, which would harm our business or cause us to fail to realize the anticipated benefits of our acquisitions. As of June 30, 2011, we had approximately \$719 million assigned to the intangible assets and goodwill of Booking.com B.V., Booking.com Limited, Agoda and TravelJigsaw, and therefore, the occurrence of any of the risks identified above could result in a material adverse impact, including an impairment of these assets, which could cause us to have to record a charge for impairment. Any such charge could adversely impact our operating results, which would likely cause our stock price to decline significantly.

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*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, consolidation, frequent new service announcements, introductions and enhancements and changing consumer demands. We may not be able to keep up with these rapid changes. In addition, these market characteristics are heightened by the emerging nature of the Internet and the apparent need of companies from many industries to offer Internet based 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 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.

Improved web browsing functionality and the development of thousands of useful applications is driving substantial traffic and commerce activity to mobile platforms, including smart phones such as the iPhone and Android-enabled phones, and tablet devices such as the iPad. In addition, social networking sites and social commerce and flash-sale sites are experiencing high levels of usage and rapid growth. We believe travel transactions will grow rapidly on mobile platforms and may gain acceptance on social and flash-sale platforms. If we are unable to develop product offerings and effective distribution on these platforms, we could lose market share to existing competitors or new entrants.

*We rely on the value of the Booking.com, priceline.com and Agoda.com brands, along with others, and the costs of maintaining and enhancing our brand awareness are increasing.*

We believe that maintaining and expanding the Booking.com, priceline.com and Agoda brands, and other owned brands, including Lowestfare.com, rentalcars.com, Breezenet.com, MyTravelGuide.com, Travelweb, hotelroom.com, TravelJigsaw and Car Hire 3000, are important aspects of our efforts to attract and expand our user and advertiser base. As our larger competitors spend increasingly more on advertising, we are required to spend more in order to maintain our brand recognition. In addition, we have spent considerable money and resources to date on the establishment and maintenance of the Booking.com, priceline.com and Agoda brands, and we will continue to spend money on, and devote resources to advertising, marketing and other brand building efforts to preserve and enhance consumer awareness of our brands. We may not be able to successfully maintain or enhance consumer awareness of these brands, and, even if we are successful in our branding efforts, such efforts may not be cost-effective. If we are unable to maintain or enhance customer awareness of our brands in a cost-effective manner, our business, results of operations and financial condition would be adversely affected.

*We will be subject to increased income taxes in the event that our foreign cash balances are remitted to the United States.*

As of June 30, 2011, we held approximately \$1.0 billion of cash and short-term liquid investments outside of the United States. To date, we have used our foreign cash to reinvest in our foreign operations. It is our current intention to reinvest our foreign cash in our foreign operations. If our foreign cash balances continue to grow and our ability to reinvest those balances diminishes, it will become increasingly likely that we will repatriate some of our foreign cash balances to the United States. In such event, we would likely be subject to additional income tax expenses in the United States with respect to our unremitted foreign earnings. We would not incur an increase in tax payments unless we repatriate the cash and no longer have net operating loss carryforwards available to offset the taxable income. Additionally, if we were to repatriate foreign cash to the U.S., it would use a portion of our domestic net operating loss carryforward which could result in us being subject to cash income taxes on the earnings of our domestic business sooner than would otherwise have been the case.

In addition, on February 1, 2011, U.S. President Barack Obama proposed significant changes to the U.S. international tax laws that would limit U.S. deductions for interest expense related to un-repatriated foreign-source income and modify the U.S. foreign tax credit rules. We cannot determine whether all of these proposals will be

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enacted into law or what, if any, changes may be made to such proposals prior to their being enacted into law. If the U.S. tax laws change in a manner that increases our tax obligation, our results could suffer.

*Regulatory and legal uncertainties could harm our business.*

The services we offer are regulated by regulations (including without limitation laws, ordinances, rules and other regulations) of national and local governments and regulatory authorities around the world. Our ability to provide our services is and will continue to be affected by such regulations. The implementation of unfavorable regulations or unfavorable interpretations of existing regulations by judicial or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected markets to become impractical and otherwise have a material adverse effect on our business, results of operations and financial condition.

Compliance with international and U.S. laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include U.S. laws such as the Foreign Corrupt Practices Act, and local laws which also prohibit corrupt payments to governmental officials, data privacy requirements, labor relations laws, tax laws, anti-competition regulations and consumer protection laws. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could result in prohibitions on our ability to offer our services in one or more countries, could delay or prevent potential acquisitions, and could also materially damage our reputation, our brands, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. We are also subject to a variety of other risks and challenges in managing an organization operating in various countries, including those related to:

- general economic conditions in each country or region;
- fluctuations in currency exchange rates and related impacts to our operating results;
- regulatory changes;
- political unrest, terrorism and the potential for other hostilities;
- public health risks, particularly in areas in which we have significant operations;
- longer payment cycles and difficulties in collecting accounts receivable;
- additional complexity to comply with regulations in multiple tax jurisdictions, as well as overlapping tax regimes;
- our ability to repatriate funds held by our foreign subsidiaries to the United States at favorable tax rates;
- difficulties in transferring funds from or converting currencies in certain countries; and reduced protection for intellectual property rights in some countries.

Our business has grown substantially over the last several years and continues to expand into new geographical locations. In addition, we have made efforts and expect to make further efforts to integrate supply across our various demand platforms. These changes add to complexity in tax compliance, and our increased size and operating history may increase the likelihood that we will be subject to audits by taxing authorities in various jurisdictions. We were recently notified that the Internal Revenue Service will initiate an audit of our income taxes for the first time in the third quarter of 2011. To date, we have been audited in several taxing jurisdictions with no significant adjustments as a result. If future audits find that additional taxes are due, we may be subject to incremental tax liabilities, possibly including interest and penalties, which could have a material adverse impact on our financial conditions and results of operations.

In addition, the strategy of Booking.com, Agoda and TravelJigsaw involves rapid expansion into regions around the world, including Europe, Asia, North America, South America and elsewhere, many of which have different legislation, regulatory environments, tax laws and levels of political stability. In September 2010, the United Kingdom's Office of Fair Trading ("OFT"), the competition authority in the U.K., announced it was conducting a formal early stage investigation into suspected breaches of competition law in the hotel online booking sector and had written to a number of parties in the industry to request information. Specifically, the investigation

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focuses upon whether there are agreements or concerted practices between hotels and online travel companies and/or hotel room reservation “wholesalers” relating to the fixed or minimum resale prices of hotel room reservations. In September 2010, Booking.com B.V. and priceline.com Incorporated, on behalf of Booking.com, received a Notice of Inquiry from the OFT; we and Booking.com are cooperating with the OFT’s investigation. We are unable at this time to predict the outcome of the OFT’s investigation and the impact, if any, on our business and results of operations. Compliance with foreign legal, regulatory or tax requirements will place demands on our time and resources, and we may nonetheless experience unforeseen and potentially adverse legal, regulatory or tax consequences.

*We face risks related to 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, it could have a material adverse effect on our business, results of operations and financial condition.

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

- a third party will not have or obtain one or more patents that can prevent us from practicing features of our business or that will require us to pay for a license to use those features;
- our operations do not or will not infringe valid, enforceable patents of third parties;
- any patent can be successfully defended against challenges by third parties;
- the pending patent applications will result in the issuance of patents;
- competitors or potential competitors 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 services, our patents will be effective in preventing one or more third parties from utilizing a copycat business model to offer the same service in one or more categories;
- new prior art will not be discovered that may diminish the value of or invalidate an issued patent; or
- legislative or judicial action will not directly or indirectly affect the scope and validity of any of our patent rights.

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 review process will have on our pending patent applications. In addition, there has been recent discussion in various federal court proceedings regarding the patentability and validity of so called “business method” patents. The U.S. Supreme Court, in a recent decision in *Bilski v. Kappos*, partially addressed the patentability of so-called business method patents. We cannot anticipate what effect, if any, any new federal court decision or new legislation will have on our issued patents or 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,

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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.

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

*Our business is exposed to risks associated with credit card fraud and chargebacks.*

Our results have been negatively impacted by purchases made using fraudulent credit cards. Because we act as the merchant-of-record in a majority of our priceline.com transactions as well as those of Agoda and TravelJigsaw, we may be held liable for accepting fraudulent credit cards on our websites as well as other payment disputes with our customers. Additionally, we are held liable for accepting fraudulent credit cards in certain retail transactions when we do not act as merchant of record. Accordingly, we calculate and record an allowance for the resulting credit card chargebacks. If we are unable to combat the use of fraudulent credit cards on our websites, our business, results of operations and financial condition could be materially adversely affected.

In addition, in the event that one of our major suppliers voluntarily or involuntarily declares bankruptcy, we could experience an increase in credit card chargebacks from customers with travel reservations with such supplier. For example, airlines that participate in our system and declare bankruptcy or cease operations may be unable or unwilling to honor tickets sold for their flights. Our policy in such event is to direct customers seeking a refund or exchange to the airline, and not to provide a remedy ourselves. Because we are the merchant-of-record on sales of *Name Your Own Price*<sup>®</sup> airline tickets to our customers, however, we could experience a significant increase in demands for refunds or credit card chargebacks from customers, which could materially adversely affect our operations and financial results. For example, in April 2008, Aloha Airlines and ATA Airlines each ceased operations and we experienced an increase in credit card chargebacks from customers with tickets on those airlines.

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*We are party to legal proceedings which, if adversely decided, could materially adversely affect us.*

We are a party to the legal proceedings described in Note 13 to the Unaudited Consolidated Financial Statements. The defense of the actions described in Note 13 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

The objective of our policies is to mitigate potential income statement, cash flow and fair value exposures resulting from possible future adverse fluctuations in rates. We evaluate our exposure to market risk by assessing the anticipated near-term and long-term fluctuations in interest rates and foreign exchange rates. This evaluation includes the review of leading market indicators, discussions with financial analysts and investment bankers regarding current and future economic conditions and the review of market projections as to expected future rates. We utilize this information to determine our own investment strategies as well as to determine if the use of derivative financial instruments is appropriate to mitigate any potential future market exposure that we may face. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. To the extent that changes in interest rates and currency exchange rates affect general economic conditions, the Priceline Group would also be affected by such changes.

We did not experience any material changes in interest rate exposures during the three months ended June 30, 2011. Based upon economic conditions and leading market indicators at June 30, 2011, we do not foresee a significant adverse change in interest rates in the near future.

Fixed rate investments are subject to unrealized gains and losses due to interest rate volatility. We performed a sensitivity analysis to determine the impact a change in interest rates would have on the fair value of our available for sale investments assuming an adverse change of 100 basis points. A hypothetical 100 basis points (1.0%) increase in interest rates would have resulted in a decrease in the fair values of our investments as of June 30, 2011 of approximately \$4 million. These hypothetical losses would only be realized if we sold the investments prior to their maturity.

As of June 30, 2011, the outstanding principal amount of our debt is approximately \$575 million. We estimate that the market value of such debt was approximately \$1.0 billion as of June 30, 2011. A substantial portion of the market value of our debt in excess of the carrying value is related to the conversion premium on the bonds.



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As a result of the acquisitions of Booking.com, Agoda and TravelJigsaw, we are conducting a significant and growing portion of our business outside the United States through subsidiaries with functional currencies other than the U.S. Dollar (primarily Euros). As a result, we face exposure to adverse movements in currency exchange rates as the financial results of our international operations are translated from local currency into U.S. Dollars upon consolidation. If the U.S. Dollar weakens against the local currency, the translation of these foreign-currency-denominated balances will result in increased net assets, gross bookings, gross profit, operating expenses, and net income. Similarly, our net assets, gross bookings, gross profit, operating expenses, and net income will decrease if the U.S. Dollar strengthens against local currency. Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses that are reflected in the Consolidated Statement of Operations. Booking.com, Agoda and TravelJigsaw are subject to risks typical of international business, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility.

From time to time, we enter into foreign exchange derivative contracts to minimize the impact of short-term foreign currency fluctuations on our consolidated operating results. Our derivative contracts principally address foreign exchange fluctuation risk for the Euro and the British Pound Sterling. As of December 31, 2010, these derivatives, which were not designated as hedging instruments for accounting purposes, resulted in a liability of \$0.2 million. As of June 30, 2011, there were no outstanding derivative contracts. Foreign exchange losses of \$0.2 million and \$2.0 million for the three and six months ended June 30, 2011, respectively, and foreign exchange gains of \$6.1 million and \$8.2 million for the three and six months ended June 30, 2010, respectively, were related to these derivatives and recorded in "Foreign currency transactions and other" in the Unaudited Consolidated Statements of Operations.

As of June 30, 2011 and December 31, 2010, we had outstanding forward currency contracts designated as hedging contracts for accounting purposes with a notional value of 405 million Euros and 378 million Euros, respectively, to hedge a portion of our net investment in a foreign subsidiary. These contracts are all short-term in nature. Mark-to-market adjustments on these net investment hedges are recorded as currency translation adjustments. The fair value of these derivatives at June 30, 2011 was a liability of \$16.4 million and was recorded in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet. The net fair value of these derivatives at December 31, 2010 was a net liability of \$2.8 million, with assets of \$4.0 million recorded in "Prepaid expenses and other current assets" and liabilities of \$6.8 million recorded in "Accrued expenses and other current liabilities" in the Unaudited Consolidated Balance Sheet. A hypothetical 10% strengthening of the foreign exchange rates relative to the U.S. Dollar, with all other variables held constant, would have resulted in a derivative liability of approximately \$75 million as of June 30, 2011. See Note 5 to the Unaudited Consolidated Financial Statements for further detail on our derivative instruments.

#### **Item 4. Controls and Procedures**

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

There was no change in the Company's internal control over financial reporting during the three months ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

A description of material legal proceedings to which we are a party is contained in Note 13 to our Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for the three months ended June 30, 2011.

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

The following table sets forth information relating to repurchases of our equity securities during the three months ended June 30, 2011:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
April 1, 2011 — April 30, 2011	—	—	—	\$ 44,866,000(1) \$ 20,447,000(2) \$ 393,917,000(3)
May 1, 2011 — May 31, 2011	1,132(4)	\$ 530.89	—	\$ 44,866,000(1) \$ 20,447,000(2) \$ 393,917,000(3)
June 1, 2011 — June 30, 2011	1,631(4)	\$ 507.80	—	\$ 44,866,000(1) \$ 20,447,000(2) \$ 393,917,000(3)
<b>Total</b>	<b>2,763(4)</b>	<b>\$ 517.26</b>	<b>—</b>	<b>\$ 459,230,000</b>

- (1) Pursuant to a stock repurchase program announced on November 2, 2005, whereby the Company was authorized to repurchase up to \$50,000,000 of its common stock.
- (2) Pursuant to a stock repurchase program announced on September 21, 2006, whereby the Company was authorized to repurchase up to \$150,000,000 of its common stock.
- (3) Pursuant to a stock repurchase program announced on March 4, 2010, whereby the Company was authorized to repurchase up to \$500,000,000 of its common stock.
- (4) Pursuant to a general authorization, not publicly announced, whereby the Company is authorized to repurchase shares of its common stock to satisfy employee withholding tax obligations related to stock-based compensation.

**Item 6. Exhibits**

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

<b>Exhibit Number</b>	<b>Description</b>
<b>31.1</b>	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<b>31.2</b>	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<b>32.1</b>	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<b>32.2</b>	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<b>101</b>	The following materials from the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2011 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Consolidated Financial Statements.

**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: August 5, 2011

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

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**Exhibit Index**

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## CERTIFICATION

I, Jeffery H. Boyd, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of priceline.com Incorporated (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and we have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 5, 2011

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

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## CERTIFICATION

I, Daniel J. Finnegan, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of priceline.com Incorporated (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 5, 2011

Name: /s/ Daniel J. Finnegan  
Daniel J. Finnegan  
Title: Chief Financial Officer

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2011

/s/ Jeffery H. Boyd  
\_\_\_\_\_  
Name: Jeffery H. Boyd  
Title: President & Chief Executive Officer

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

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

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2011

/s/ Daniel J. Finnegan  
\_\_\_\_\_  
Name: Daniel J. Finnegan  
Title: Chief Financial Officer

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

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

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