

REGISTRATION NO. 333-69657

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 2  
TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

PRICELINE.COM INCORPORATED  
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE 4541 06-1528493  
(State or Other Jurisdiction (Primary Standard Industrial (I.R.S. Employer  
of Classification Code Number) Identification  
Incorporation or Organization) No.)

FIVE HIGH RIDGE PARK  
STAMFORD, CONNECTICUT 06905  
(203) 705-3000  
(Address, Including Zip Code, and Telephone Number, including Area Code, of  
Registrant's Principal Executive Offices)

MELISSA M. TAUB, ESQ.  
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY  
PRICELINE.COM INCORPORATED  
FIVE HIGH RIDGE PARK  
STAMFORD, CONNECTICUT 06905  
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(Name, Address, including Zip Code, and Telephone Number, including Area Code,  
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as  
practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933 check the following box. / /

If this form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, check the following box and  
list the Securities Act registration statement number of the earlier effective  
registration statement number for the same offering. / / \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. / / \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(d)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. / / \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR  
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL  
FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION  
STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF  
THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME

EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING  
PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

ISSUED MARCH 18, 1999

10,000,000 SHARES

[LOGO]

COMMON STOCK

PRICELINE.COM INCORPORATED IS OFFERING 10,000,000 SHARES OF ITS COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN \$7 AND \$9 PER SHARE.

PRICELINE.COM INCORPORATED HAS APPLIED FOR QUOTATION OF THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "PCLN."

INVESTING IN THE COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 3.

PRICE \$ A SHARE

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO COMPANY
PER SHARE.....	\$	\$	\$
TOTAL.....	\$	\$	\$

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICELINE.COM INCORPORATED HAS GRANTED THE UNDERWRITERS THE RIGHT TO PURCHASE UP TO AN ADDITIONAL 1,500,000 SHARES OF COMMON STOCK TO COVER OVER-ALLOTMENTS. MORGAN STANLEY & CO. INCORPORATED EXPECTS TO DELIVER THE SHARES OF COMMON STOCK TO PURCHASERS ON , 1999.

MORGAN STANLEY DEAN WITTER

BANCBOSTON ROBERTSON STEPHENS

DONALDSON, LUFKIN & JENRETTE

MERRILL LYNCH & CO.

, 1999

[At the top of the page, a picture of a person [using the Internet] in the middle of the following text: BUYER-DRIVEN COMMERCE]

[On the right side of the page, a page screen shot of the priceline.com homepage, including a button menu of the various services offered by the priceline.com service. Below the priceline.com homepage, four smaller cascading page screen shots with textual descriptions of the various services offered and steps involved in the priceline.com process; the following captions flow below the smaller cascading screen shots]

"Priceline.com's name-your-price process was carefully designed to be fast and easy to use."

"In just a few minutes, and at no cost, a consumer can name a guaranteed ready-to-buy price for a flexible range of goods. Priceline.com then searches for a seller who wants the sale."

On the left side of the page, the following text:

A UNIQUE E-COMMERCE SYSTEM WHERE BUYERS NAME THEIR PRICE, AND PRICELINE.COM "COLLECTS" INCREMENTAL DEMAND FOR SELLERS TO CONSIDER.

Priceline.com is a multi-category e-commerce system which uses a simple and compelling consumer proposition--name your price. Subject to the buyer's agreed range of product flexibility, we find a seller willing to accept the buyer's offer. Buyers get the price they want and sellers get incremental sales.

[The button menu of services that the priceline.com service offers is duplicated from the page screen shot of the priceline.com homepage, with each button bearing an icon depicting the textual description on the button:

[Icon of an airplane with the text] "Domestic Airline Tickets"

[Icon of an airplane with the text] "International Airline Tickets"

[Icon of a suitcase with the text] "Hotel Rooms"

[Icon of a car with the text] "New Cars (N.Y. Metro)"

[Icon of a house with the text] "Home Mortgages"

[Icon of a house with the text] "Home Refinancing"

[Icon with a house with the dollar sign on it with the text] "Home Equity Loans"]

Underneath the button menu, the following text:

As of January 1999, six consumer services are available through priceline.com. Currently available services are in two broad categories; travel and financial services. Our seventh service, new cars, is being tested in the New York metropolitan area and is priceline.com's first service in the automotive category.

priceline.com and the priceline.com logo are service marks of priceline.com  
Incorporated.

The gatefold consists of four sections, each with visual page screen shots and textual descriptions of each of the categories available through the priceline.com service: airline tickets, hotel rooms, home financing or new cars.

On right side, top half of the first page of the gatefold, a picture of an airline, with the following heading flowing around it:

priceline.com-SM- airline tickets

Below the heading, three page screen shots with textual descriptions of the airline tickets services offered by priceline.com with the following caption:

"Airline Tickets . . . Priceline.com's inaugural name-your-price service was launched on April 6, 1998. During the nine months since launch, priceline.com has sold over 100,000 airline tickets."

On the left side, top half of the first page of the gatefold, the first two buttons in the button menu of services that the priceline.com service offers are duplicated:

[Icon of an airplane with the text] "Domestic Airline Tickets"

[Icon of an airplane with the text] "International Airline Tickets"

Below the buttons, the following text:

AIRLINE TICKETS

Name your price for leisure travel on a major airline . . .

With priceline.com's airline ticket service, a leisure traveler names his price and dates of travel and agrees to accept non-changeable tickets at any time of the day, on any major airline that agrees to his price.

On right side, bottom half of the first page of the gatefold, a picture of a hotel, with the following heading flowing around it:

priceline.com-SM- hotel rooms

Below the heading, three page screen shots with textual descriptions of the hotel rooms services offered by priceline.com with the following caption:

"Hotel Rooms . . . Priceline.com's second nationally available service was launched in more than 200 cities during the fourth quarter of 1998."

On the left side, bottom half of the first page of the gatefold, the third button in the button menu of services that the priceline.com service offers is duplicated:

[Icon of a suitcase with the text] "Hotel Rooms"

Below the button, the following text:

HOTEL ROOMS

Name your price for a hotel room in over 200 U.S. cities . . .

With priceline.com's hotel room service, a traveler names his price, quality rating and geographic zone in any of over 200 U.S. cities. The buyer agrees to stay in any major hotel that accepts his price.

priceline.com-SM-.....

On the right side, top half of the second page of the gatefold, a picture of a house, with the following heading flowing around it:

priceline.com-SM- home financing

Below the heading, three page screen shots with textual descriptions of the home financing services offered by priceline.com with the following caption:

"Home Financing . . . Priceline.com introduced three home financing services in the first quarter of 1999. Consumers can name their own interest rate and points on mortgages, home equity loans and home refinancings.



On the left side, top half of the second page of the gatefold, the last three buttons in the button menu of services that the priceline.com service offers are duplicated:

[Icon of a house with the text] "Home Mortgages"

[Icon of a house with the text] "Home Refinancing"

[Icon with a house with the dollar sign on it with the text] "Home Equity Loans"

Below the buttons, the following text:

HOME FINANCING

Name your interest rate and points for a mortgage, refinancing or home equity loan . . .

With priceline.com's home financing services, the consumer names his interest rate and points for any of three home financing services. Priceline.com works to find a lender who agrees to the consumer's offer.

On the right side, bottom half of the second page of the gatefold, a picture of a car, with the following heading flowing around it:

priceline.com-SM- new cars

Below the heading, three page screen shots with textual descriptions of the new cars services offered by priceline.com with the following caption:

"New Cars . . . Priceline.com introduced its new car service in the New York market as a test in the third quarter of 1998. Unlike other Internet services, priceline's service is not a lead-generating system and is open to all factory-authorized dealers with no up-front fees or exclusivity."

On the left side, bottom half of the second page of the gatefold, the third button in the button menu of services that the priceline.com service offers is duplicated:

[Icon of a car with the text] "New Cars (N.Y. Metro)"

Below the button, the following text:

NEW CARS

Name your price for the exact car you want and let priceline.com get a dealer to agree . . .

With priceline.com's new car service, the buyer names his price for the exact car he wants. The buyer never talks to a car salesman until after priceline finds a local factory-authorized dealer who agrees to the buyer's price in writing.

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Our principal executive offices are located at Five High Ridge Park, Stamford, Connecticut 06905, and our telephone number is (203) 705-3000. Our World Wide Web site is [www.priceline.com](http://www.priceline.com). The information in the Web site is not incorporated by reference into this prospectus.

In this prospectus, the terms "company," "priceline.com," "we," "us" and "our" refer to priceline.com Incorporated and unless the context otherwise requires, "common stock" refers to the common stock, par value \$0.008 per share, of priceline.com, after giving effect to a 1.25 for one stock split to be effected prior to the consummation of this offering. Our financial statements for all relevant periods are presented on a combined basis with the financial statements of Priceline Travel, Inc., a separate company owned by Mr. Jay S. Walker, our Founder and Vice Chairman. Priceline Travel owns our travel agency license and will be merged with and into priceline.com prior to the consummation of this offering.

This prospectus includes statistical data regarding our company, the Internet and the industries in which we compete. Such data are based on our records or are taken or derived from information published or prepared by various sources, including International Data Corporation, a provider of market and strategic information for the information technology industry, and a market research organization that we retain from time to time to measure consumer awareness of our brand and services and of other leading Internet brands and their products.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

Until \_\_\_\_\_, 1999 (25 days after the date of this prospectus), all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Unless otherwise indicated, all information in this prospectus (1) reflects a 1.25 for one stock split of our common stock and the conversion of all outstanding shares of our convertible preferred stock into 38,907,730 shares of common stock upon the consummation of this offering; (2) reflects the consummation of the merger between priceline.com and Priceline Travel, Inc. prior to the consummation of this offering; and (3) assumes that the

underwriters' over-allotment option will not be exercised. See "Description of Capital Stock" and "Underwriters."

PROSPECTUS SUMMARY

Priceline.com has pioneered a unique new type of e-commerce known as a "demand collection system" that enables consumers to use the Internet to save money on a wide range of products and services while enabling sellers to generate incremental revenue. Using a simple and compelling consumer proposition--"name your price," we collect consumer demand, in the form of individual customer offers guaranteed by a credit card, for a particular product or service at a price set by the customer. We then either communicate that demand directly to participating sellers, or access participating sellers' private databases to determine whether we can fulfill the customer's offer on the basis of the pricing information and rules established by the sellers. Consumers agree to hold their offers open for a specified period of time and, once fulfilled, offers cannot be canceled. By requiring consumers to be flexible with respect to brands, sellers and/or product features, we enable sellers to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures.

We commenced the priceline.com service on April 6, 1998 with the sale of leisure airline tickets and expanded the priceline.com service to include the sale of new automobiles, on a test basis, in July 1998, hotel room reservations in October 1998 and home mortgages in January 1999. With respect to airline and hotel reservation services, we earn the spread between the customer's named price and the fare or rate charged by the seller. With respect to our automobile and mortgage services, and for our adaptive marketing programs, we earn fees or other payments payable by the seller and/or the customer or by our adaptive marketing partners.

We believe that the priceline.com service already has achieved significant consumer acceptance and widespread brand awareness. During the period from launch through December 31, 1998, we collected guaranteed offers for approximately 1.9 million airline tickets, representing approximately \$400.0 million in total consumer demand. This demand resulted in sales of approximately 134,900 airline tickets, representing approximately \$30.4 million in revenue. We intend to continue to leverage the priceline.com brand over the next two years by expanding our product offerings to include other leisure travel products, other financial services products and a number of retail products. Our seller participants currently include 18 domestic and international airlines and several nationally recognized hotel chains.

THE OFFERING

Common Stock offered.....	10,000,000 shares
Common Stock to be outstanding after the offering.....	142,320,430 shares(a)
Use of proceeds.....	For working capital and general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.....	PCLN

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(a) Excludes shares of common stock issuable upon the exercise of outstanding options and warrants. See "Capitalization."

SUMMARY COMBINED FINANCIAL INFORMATION

	JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997 -----		YEAR ENDED DECEMBER 31, 1998 ----- RESTATE (C) -----
<b>COMBINED STATEMENT OF OPERATIONS DATA:</b>			
Revenues.....	\$	--	\$ 35,236,860
Cost of revenues:			
Product costs.....		--	33,495,745
Supplier warrant costs(a).....		--	3,029,014
		-----	-----
Total cost of revenues.....		--	36,524,759
		-----	-----
Gross profit (loss).....		--	(1,287,899)
Expenses:			
Supplier start-up warrant costs(a).....		--	57,978,678
Sales and marketing.....		441,479	24,388,061
General and administrative(b).....		1,011,600	18,004,585
Systems and business development.....		1,060,091	11,131,650
		-----	-----
Total expenses.....		2,513,170	111,502,974
		-----	-----
Operating loss.....		(2,513,170)	(112,790,873)
Interest income (expense), net.....		(312)	548,374
		-----	-----
Net loss.....		(2,513,482)	(112,242,499)
Accretion on preferred stock.....		--	(2,183,424)
		-----	-----
Net loss applicable to common shareholders.....	\$	(2,513,482)	\$ (114,425,923)
		-----	-----
Basic and diluted loss per common share.....	\$	(0.05)	\$ (1.41)
		-----	-----
Weighted average common shares outstanding.....		50,833,756	81,231,425

	AS OF DECEMBER 31, 1998 -----	
	ACTUAL	PRO FORMA AS ADJUSTED (D) -----
<b>COMBINED BALANCE SHEET DATA:</b>		
Cash and cash equivalents.....	\$ 53,593,026	\$ 125,856,556
Working capital.....	49,922,000	122,185,530
Total assets.....	66,572,485	138,836,015
Total liabilities.....	11,296,640	11,296,640
Total stockholders' equity.....	55,275,845	127,539,375

(a) Represents a non-cash charge for warrants issued to certain of our participating airlines.

(b) Includes a non-cash charge of \$6,500,000 with respect to 8,125,000 shares of common stock issued as executive compensation.

(c) As restated see Note 13 to the 1998 combined financial statements.

(d) For a description of the assumptions reflected in the Pro Forma As Adjusted presentation, see "Capitalization."

## RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISKS BEFORE MAKING AN INVESTMENT DECISION. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT. YOU ALSO SHOULD REFER TO THE OTHER INFORMATION SET FORTH IN THIS PROSPECTUS, INCLUDING OUR COMBINED FINANCIAL STATEMENTS AND THE RELATED NOTES THERETO.

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS. THESE STATEMENTS RELATE TO FUTURE EVENTS OR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "COULD," "EXPECTS," "PLANS," "ANTICIPATES," "BELIEVES," "ESTIMATES," "PREDICTS," "POTENTIAL," OR "CONTINUE" OR THE NEGATIVE OF SUCH TERMS AND OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. IN EVALUATING THESE STATEMENTS, YOU SHOULD SPECIFICALLY CONSIDER VARIOUS FACTORS, INCLUDING THE RISKS OUTLINED BELOW. THESE FACTORS MAY CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY FORWARD-LOOKING STATEMENT. SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS."

OUR LIMITED OPERATING HISTORY MAKES EVALUATING OUR BUSINESS DIFFICULT

Priceline.com was formed in July 1997 and began operations on April 6, 1998. As a result, we have only a limited operating history on which you can base an evaluation of our business and prospects. Our prospects must be considered in the light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets, such as online commerce, using new and unproven business models. To address these risks and uncertainties, we must, among other things:

- attract leading sellers and consumers to the priceline.com service;
- maintain and enhance our brand, and expand our product and service offerings;
- attract, integrate, retain and motivate qualified personnel; and
- adapt to meet changes in our markets and competitive developments.

We may not be successful in accomplishing these objectives.

WE ARE NOT PROFITABLE AND EXPECT TO CONTINUE TO INCUR LOSSES

We have incurred net losses of \$49.0 million during the period from July 18, 1997 (inception) through December 31, 1998, before giving effect to \$67.9 million of non-cash charges arising from equity issuances to a number of our participating airlines, our chief executive officer and other parties, which resulted in total net losses of \$116.9 million for the period. We have not achieved profitability and expect to continue to incur losses for the foreseeable future. The principal causes of our losses are likely to continue to be significant brand development costs, marketing and promotion costs and technology and systems development costs.

Almost all of our revenues to date have been derived from airline ticket sales and related adaptive marketing programs. In order to increase airline and adaptive marketing revenues, build a record of successful transactions and enhance the priceline.com brand, we have sold a substantial portion of our airline tickets below cost. In addition, as our business model evolves, we expect to introduce a number of new products and services. With respect to both current and future product and service offerings, we expect to increase significantly our operating expenses in order to increase our customer base, enhance our brand image and support our growing infrastructure. For us to make a profit, our revenues and gross profit margins will need to increase sufficiently to cover these and other future costs. Otherwise, we may never make a profit.

## WE ARE DEPENDENT ON ADAPTIVE MARKETING PROGRAMS

Our adaptive marketing programs permit consumers to increase the amount of their offers at no additional cost by participating in sponsor promotions during the process of making an offer through the priceline.com service. The fees paid to us by sponsors offering the promotions generate significant revenues. Since these fees have no direct costs, they have a disproportionately positive impact on our gross profit margins. A significant reduction in consumer acceptance of our adaptive marketing programs or any other material decline in such programs could result in a material reduction in our revenues and our gross profit. We may not be able to replace such revenues through other programs or through product sales.

Currently, almost all of our adaptive marketing revenues are derived from fees paid by Capital One Bank for qualifying credit card applications submitted over the priceline.com service in connection with customer offers for airline tickets. On March 3, 1999, Capital One exercised its contractual option to cease accepting credit card applications through priceline.com effective May 1, 1999 unless we enter into a new agreement with them on revised terms which they have offered to us.

We have entered into an agreement in principle with First USA Bank, a leading national credit card issuer, under which First USA would replace Capital One as our strategic partner in our credit card adaptive marketing program. Under the First USA adaptive marketing program, we would enable our customers to increase the amount of their offers by a specified amount by applying online for a First USA credit card and would offer other promotions linked to the First USA customer acquisition program. We would earn fees in a variety of ways, including (1) upon the acceptance by First USA of credit card applications submitted through the priceline.com service, up to a specified maximum amount of five million accounts, subject to adjustment under certain circumstances, (2) upon the activation of credit card accounts acquired for First USA through the priceline.com service and (3) for transfers of balances from other credit cards to First USA credit cards through the priceline.com service. The First USA agreement would have a term of five years, subject to certain termination and repricing provisions.

While we expect to enter into a definitive agreement with First USA, there can be no assurance that such an agreement will in fact be executed, or that the terms of any such agreement will be substantially the same as, or similar to, those contemplated in the agreement in principle. Moreover, we can give no assurance that a new adaptive marketing credit card program with First USA or any other credit card issuer will be established by the expiration of the Capital One program or that it will provide us with financial benefits comparable to those provided under the Capital One program. Capital One currently pays a fee for each qualifying credit card application submitted over the priceline.com service. The fee structure of the First USA program is based on the factors described above which may or may not result in revenues comparable to those under the Capital One program. If we fail to secure a new adaptive marketing program with First USA or another credit card issuer, our revenues and gross margin are likely to decrease significantly, which could materially and adversely affect our business and prospects.

## POTENTIAL FLUCTUATIONS IN OUR FINANCIAL RESULTS MAKES FINANCIAL FORECASTING DIFFICULT

We expect our revenues and operating results to vary significantly from quarter to quarter. As a result, quarter to quarter comparisons of our revenues and operating results may not be meaningful. In addition, due to our limited operating history and our new and unproven business model, we cannot predict our future revenues or results of operations accurately. It is likely that in one or more future quarters our operating results will fall below the expectations of securities analysts and investors. If this happens, the trading price of our common stock would almost certainly be materially and adversely affected.

Our business has no backlog and almost all of our net revenues for a particular quarter are derived from transactions that are both initiated and completed during that quarter. Our current and future expense levels are based largely on our investment plans and estimates of future revenues and are, to a large extent, fixed. Accordingly, we may be unable to adjust spending in a timely manner to compensate for



any unexpected revenue shortfall, and any significant shortfall in revenues relative to our planned expenditures could have an immediate adverse effect on our business and results of operations.

Our limited operating history and rapid growth makes it difficult for us to assess the impact of seasonal factors on our business. Nevertheless, we expect our business to be subject to seasonal fluctuations, reflecting a combination of seasonality trends for the products and services offered by the priceline.com service and seasonality patterns affecting Internet use. For example, with regard to our travel products, demand for leisure travel may increase over summer vacations and holiday periods, while Internet usage may decline during the summer months. Our results also may be affected by seasonal fluctuations in the inventory made available to the priceline.com service by participating sellers. Airlines, for example, typically enjoy high demand for tickets through traditional distribution channels for travel during Thanksgiving and the year-end holiday period. As a result, during those periods, airlines may have less excess inventory to offer through the priceline.com service at discounted prices. Our business also may be subject to cyclical variations for the products and services offered; for example, leisure travel and home mortgage financing tend to decrease in economic downturns.

#### WE ARE DEPENDENT ON THE AIRLINE INDUSTRY AND CERTAIN AIRLINES

Our near term, and possibly long term, prospects are significantly dependent upon our sale of leisure airline tickets. Sales of leisure airline tickets and revenues derived from related adaptive marketing programs represented essentially all of our revenues for the year ended December 31, 1998. Leisure travel, including the sale of leisure airline tickets, is dependent on personal discretionary spending levels. As a result, sales of leisure airline tickets and other leisure travel products tend to decline during general economic downturns and recessions. Unforeseen events, such as political instability, regional hostilities, increases in fuel prices, travel-related accidents and unusual weather patterns also may adversely affect the leisure travel industry. As a result, our business also is likely to be affected by those events. Significantly reducing our dependence on the airline and travel industries is likely to take a long time and there can be no guarantee that we will succeed in reducing that dependence.

Sales of airline tickets from priceline.com's three largest airline suppliers accounted for approximately 95% of airline ticket revenue for the year ended December 31, 1998. As a result, currently we are substantially dependent upon the continued participation of these three airlines in the priceline.com service in order to maintain and continue to grow our total airline ticket revenues. We currently have agreements with 18 airlines for the supply of airline tickets. However, these agreements:

- do not require the airlines to make tickets available for any particular routes;
- do not require the airlines to provide any specific quantity of airline tickets;
- do not require the airlines to provide particular prices or levels of discount;
- do not require the airlines to deal exclusively with us in the public sale of discounted airline tickets; and
- generally, can be terminated upon relatively short notice.

These agreements also outline the terms and conditions under which ticket inventory provided by the airlines may be sold. In addition, our agreement with Delta Air Lines requires, subject to various exceptions, Delta's approval of the addition of new carriers to the priceline.com service and restricts both the volume of tickets that may be sold and the routes for which tickets may be offered by specified carriers through the priceline.com service. Accordingly, Delta could limit our ability to expand our business through the introduction of new carriers or the expansion of the routes for which we offer tickets.

Due to our dependence on the airline industry, we could be severely affected by changes in that industry, and, in many cases, we will have no control over such changes or their timing. For example, if the Federal Aviation Administration grounded a popular aircraft model, excess seat capacity could be

dramatically reduced and, as a result, our source of inventory could be significantly curtailed. In addition, given the concentration of the airline industry, particularly in the domestic market, major airlines that are not participating in the priceline.com service could exert pressure on other airlines not to supply us with tickets. Alternatively, the airlines could attempt to establish their own buyer-driven commerce service or other similar service to compete with us. We also could be materially adversely affected by the bankruptcy, insolvency or other material adverse change in the business or financial condition of one or more of our airline participants.

#### OUR BUSINESS MODEL IS NOVEL AND UNPROVEN

The priceline.com service is based on a novel and unproven business model. We will be successful only if consumers and sellers actively use the priceline.com service. Prior to the launch of the priceline.com service, consumers and sellers had never bought and sold products and services through a demand collection system over the Internet. Therefore, it is impossible to predict the degree to which consumers and sellers will use the priceline.com service.

Many of the factors influencing consumers' and sellers' willingness to use the priceline.com service are outside our control. For example, a labor dispute that disrupts airline service or an airline accident could make consumers unwilling to use a service like priceline.com that does not permit the customer to designate the airline on which the customer purchases a ticket. In addition, a breach of security on the Internet, even if we were not involved, could make consumers unwilling to guarantee orders online with a credit card. Consequently, it is possible that consumers and sellers will never utilize the priceline.com service to the degree necessary for us to achieve profitability.

#### WE NEED TO SELL NEW PRODUCTS AND SERVICES

We are unlikely to make significant profits unless we make new or complementary products and services and a broader range of existing products and services available through the priceline.com service. We will incur substantial expenses and use significant resources in trying to expand the type and range of the products and services that we offer. However, we may not be able to attract sellers to provide such products and services or consumers to purchase such products and services through the priceline.com service. In addition, if we launch new products or services and they are not favorably received by consumers, our reputation and the value of the priceline.com brand could be damaged.

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

#### OUR BRAND MAY NOT ACHIEVE THE BROAD RECOGNITION NECESSARY TO SUCCEED

We believe that broader recognition and a favorable consumer perception of the priceline.com brand are essential to our future success. Accordingly, we intend to continue to pursue an aggressive brand-enhancement strategy, which will include mass market and multimedia advertising, promotional programs and public relations activities. These initiatives will involve significant expense. If our brand enhancement strategy is unsuccessful, these expenses may never be recovered and we may be unable to increase future revenues. Successful positioning of the priceline.com brand will largely depend on:

- the success of our advertising and promotional efforts;
- an increase in the number of successful transactions on the priceline.com service; and

- the ability to continue to provide high quality customer service.

We believe that consumers currently associate the priceline.com brand primarily with the sale of discount airline tickets. To grow our business, we will need to expand awareness of the priceline.com brand to a wide range of products and services.

Sales and marketing expense was \$24.4 million during the year ended December 31, 1998. To increase awareness of the priceline.com brand and expand it to a wide range of products and services, we will need to continue to spend significant amounts on advertising and promotions. These expenditures may not result in a sufficient increase in revenues to cover such advertising and promotions expenses. In addition, even if brand recognition increases, the number of new users or the number of transactions on the priceline.com service may not increase. Also, even if the number of new users increases, those users may not use the priceline.com service on a regular basis.

#### WE FACE POTENTIAL CONFLICTS OF INTEREST RELATING TO WALKER DIGITAL

Because of our relationship with Walker Digital and our interlocking directors, officers and stockholders, we are likely to face potential conflicts of interest relating to Walker Digital.

The priceline.com service and the business model and related intellectual property rights underlying the priceline.com service were developed in part by executives, employees and/or consultants associated with Walker Digital Corporation, a technology research and development company that was founded and is controlled by Mr. Jay S. Walker, who is the Founder and Vice Chairman of priceline.com. Such individuals assigned all of their intellectual property rights relating to the priceline.com service to Walker Digital's affiliate, Walker Asset Management Limited Partnership. Walker Asset Management, subsequently transferred the patent rights relating to the priceline.com service and other related intellectual property rights to us. We, in turn, granted Walker Digital a perpetual, non-exclusive, royalty-free right and license to use certain intellectual property related to the priceline.com service for non-commercial internal research and development purposes.

Walker Digital also provides us with, among other things, a right to purchase at fair market value any intellectual property that is in process or has been fully developed and that is owned and subsequently acquired, developed or discovered by Walker Digital or Walker Asset Management that will provide significant value in the use or commercial exploitation of the initially transferred patent and related intellectual property rights.

Walker Digital also provides us with various services, including (1) research and development assistance; (2) patent and other intellectual property services; and (3) technical support. Walker Digital also subleases a portion of its Stamford, Connecticut facilities to us on a month-to-month basis. Priceline.com, in turn, provides Walker Digital with various management and administrative services.

Certain of our executive officers and other key employees also are directors, officers or employees of Walker Digital and either own, or hold an option to purchase, equity securities of Walker Digital. Upon the consummation of this offering, Walker Digital also will own approximately 4.9% of our outstanding common stock. Accordingly, conflicts of interest may arise from time to time between us and Walker Digital, particularly with respect to the potential purchase by us of additional intellectual property rights at fair market value and the pursuit of overlapping corporate opportunities. We have not adopted any formal plan or arrangement to address such potential conflicts of interest and intend to review related-party transactions with Walker Digital on a case-by-case basis. Additionally, the option agreements for priceline.com options held by many other employees and consultants of priceline.com provide that options scheduled to vest as of the end of the current vesting period in which such employee or consultant terminates his or her employment or consulting relationship with priceline.com will not be forfeited if the employee or consultant leaves priceline.com to work for an entity in which Mr. Jay S. Walker is the controlling stockholder and maintains such employment until the end of such current vesting period.

Because we have interlocking directors and officers with Walker Digital, there may be inherent conflicts of interest when such directors and officers make decisions related to transactions between us and Walker Digital. We could lose valuable management input from such conflicted directors and officers.

Mr. Jay S. Walker, as the Founder of Walker Digital and as our Founder, has performed an essential role in the establishment and development of the priceline.com service. Mr. Walker also serves as Chairman of Walker Digital and as non-executive Chairman of NewSub Services, Inc., a direct marketing company also co-founded by him. Mr. Walker devotes, and expects to continue to devote, a substantial portion of his time to Walker Digital and a lesser portion of his time to NewSub Services. Mr. Walker has not committed to devote any specific percentage of his business time to us. In July 1998, Mr. Richard S. Braddock replaced Mr. Walker as our Chairman and Chief Executive Officer. As a result, Mr. Walker's role with priceline.com has been reduced, and we expect that Mr. Walker will continue to reduce his involvement with us over time. Mr. Walker's skills and experience have benefitted, and continue to benefit, us significantly. Priceline.com could lose valuable management expertise as Mr. Walker further reduces his day-to-day involvement with priceline.com.

#### WE MAY BE UNABLE TO EFFECTIVELY MANAGE OUR RAPID GROWTH

We have rapidly and significantly expanded our operations and anticipate that further expansion will be required to realize our growth strategy. Our rapid growth has placed significant demands on our management and other resources which, given our expected future growth rate, is likely to continue. To manage our future growth, we will need to attract, hire and retain highly skilled and motivated officers and employees and improve existing systems and/or implement new systems for: (1) transaction processing; (2) operational and financial management; and (3) training, integrating and managing our growing employee base.

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

Competition for personnel with experience in Internet commerce is intense. If we do not succeed in attracting new employees or retaining and motivating our current and future employees, our business could suffer significantly.

Since our formation in July 1997, we have expanded from 10 to 177 employees. We also have employed many key personnel since our launch in April 1998, including our Chief Executive Officer, and a number of key managerial, marketing, planning, financial, technical and operations personnel. In addition, we currently are engaged in recruiting a new chief operating officer. We expect to continue to add additional key personnel in the near future. We do not have "key person" life insurance policies on any of our key personnel.

We believe our performance is substantially dependent on;

- our ability to retain and motivate our senior management and other key employees; and
- our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing and customer service personnel.

## CAPACITY CONSTRAINTS AND SYSTEM FAILURES COULD HARM OUR BUSINESS

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

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

any of which could impair our reputation, damage the priceline.com brand and materially and adversely affect our revenues.

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

Our ability to facilitate transactions successfully and provide high quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware systems. The priceline.com service has experienced periodic system interruptions, which we believe will continue to occur from time to time. Our systems and operations also are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. While we currently maintain redundant servers at our Stamford, Connecticut premises to provide limited service during system disruptions at our production site hosted by Exodus Communications, Inc., we do not have fully redundant systems, a formal disaster recovery plan or alternative providers of hosting services. In addition, we do not carry sufficient business interruption insurance to compensate for losses that could occur. Any system failure that causes an interruption in service or decreases the responsiveness of the priceline.com service could impair our reputation, damage our brand name and materially adversely affect our revenues.

## WE RELY ON THIRD-PARTY SYSTEMS

We rely on certain third-party computer systems or third-party service providers, including;

- the computerized central reservation systems of the airline and hotel industries to satisfy demand for airline tickets and hotel room reservations;
- the computer systems of LendingTree, Inc. to satisfy offers for home mortgages;
- Exodus Communications to host our systems infrastructure, web and database servers; and
- CallTech Communications Incorporated to operate our call center.

Any interruption in these third-party services, or a deterioration in their performance, could be disruptive to our business. We currently do not have any contractual arrangement with Exodus Communications and our agreements with CallTech Communications and LendingTree are terminable upon short notice. 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.

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

The markets for the products and services offered on the priceline.com service are intensely competitive. We compete with both traditional distribution channels and online services. Increased competition could diminish our ability to become profitable or result in loss of market share and damage the priceline.com brand.

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

- Internet travel agents such as Travelocity, Preview Travel and Microsoft's Expedia.com;
- traditional travel agencies;
- consolidators and wholesalers of airline tickets and other travel products;
- individual airlines, hotels, rental car companies, cruise operators and other travel service providers; and
- operators of travel industry reservation databases such as Worldspan and Sabre.

Our current or potential competitors with respect to new automobiles include traditional and online auto dealers, including newly developing auto superstores such as Auto Nation, Auto-by-Tel and Microsoft's CarPoint. With respect to financial service products, our competitors include:

- banks and other financial institutions;
- online and traditional mortgage and insurance brokers, including Quicken Mortgage, E-Loan and Home Shark; and
- insurance companies.

We also potentially face competition from a number of large online services that have expertise in developing online commerce and in facilitating Internet traffic. These potential competitors include America Online, Microsoft and Yahoo!, who could choose to compete with us either directly or indirectly through affiliations with other e-commerce companies. Other large companies with strong brand recognition, technical expertise and experience in online commerce and direct marketing could also seek to compete in the buyer-driven commerce market. While we face competition from all of these current or potential competitors, our business and financial position would be particularly at risk if the airlines chose to establish their own buyer-driven commerce system to sell excess inventory.

Many of our competitors have significant competitive advantages. For example, airlines, hotels, financial institutions and other suppliers also sell their products and services directly to consumers and have established Web sites. Internet directories, search engines and large traditional retailers have significantly greater operating histories, customer bases, technical expertise, brand recognition and/or online commerce experience than us. In addition, certain competitors may be able to devote significantly greater resources than us to:

- marketing and promotional campaigns;
- attracting traffic to their Web sites;
- attracting and retaining key employees; and
- Web site and systems development.

## OUR SUCCESS DEPENDS ON OUR ABILITY TO PROTECT OUR INTELLECTUAL PROPERTY

We have developed a comprehensive program for securing and protecting rights in patentable inventions, trademarks, trade secrets and copyrightable materials. If we are not successful in protecting our intellectual property, there could be a material adverse effect on our business.

### PATENTS

We currently hold one issued United States patent directed to a unique Internet-based buyer-driven commerce method and system underlying our business model. We also hold one issued United States patent directed to a method and system for pricing and selling airline ticket options and one allowed patent application directed to methods and systems for generating airline-specified time tickets. In addition, we have pending eighteen United States and one international patent applications directed to different aspects of our technology and business processes. We also have instituted an invention development program to identify and protect new inventions and a program for international filing of selected patent applications. Nevertheless, it is possible that:

- our core buyer-driven commerce patent and any other issued patents could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the buyer-driven commerce system claimed in the patent or the inventions claimed in any other issued patents;
- because of variations in the application of our business model to each of our products and services, our core buyer-driven commerce patent may not be effective in preventing one or more third parties from utilizing a copycat business model to offer the same product or service in one or more categories;
- our ability to practice our core buyer-driven commerce patent through offering one or more of our products or services could be successfully prevented if one or more third parties prevail in an interference action in the U.S. Patent and Trademark Office and thereby obtain priority of invention for the subject matter claimed in our core buyer-driven commerce patent;
- our pending patent applications may not result in the issuance of patents; and
- current and future competitors could devise new methods of competing with our business that are not covered by our issued patents or patent applications.

While our core patent is directed to a unique buyer-driven commerce system and method, it does not necessarily prevent competitors from developing and operating Internet commerce businesses that use customer-offer based business models. It is possible for a competitor to develop and utilize a business model that appears similar to our patented buyer-driven commerce system, but which has sufficient distinctions that it does not fall within the scope of our patent. For example, we are aware of more than one Internet travel service that appear to use a customer-offer based transaction model, but based on the information we have obtained to date, may not infringe our patent.

### PENDING INTERFERENCE ACTION

On January 6, 1999, we received notice that a third party patent applicant and patent attorney, Thomas G. Woolston, purportedly had filed in December 1998 with the United States Patent and Trademark Office a request to declare an "interference" between a patent application filed by Woolston describing an electronic market for used and collectible goods and our core buyer-driven commerce patent. We have received a copy of a Petition for Interference from Woolston, the named inventor in at least three United States Patent applications titled "Consignment Nodes," one of which has issued as a patent (U.S. Patent Number: 5,845,265). We currently are awaiting information from the Patent Office regarding whether it will initiate an interference proceeding concerning Woolston's patent application and our core buyer-driven commerce patent. An interference is an administrative proceeding instituted in the

Patent Office to determine questions of patentability and priority of invention between two or more parties claiming the same patentable invention. There is no statutory period within which the Patent Office must act on an interference request. If an interference is declared and proceeds through a final hearing in the Patent Office, a final judgment is made by the Patent Office as to inventorship. Following such final judgment, appeals could be made in Federal court. While there can be no certainty as to time periods, interference proceedings typically take years to resolve.

As a threshold to the initiation of an interference proceeding, Woolston must show that his patent application supports claims that he copied from our core buyer-driven commerce patent. In order to make this showing, he would have to prove, among other things, that he invented the subject matter of the priceline.com claims before the inventors of our patent. If the Patent Office were to find that Woolston's patent application supported the copied priceline.com claims, it would resolve the interference by awarding inventorship to the party with the earliest proven date of invention. Woolston recently announced an agreement to license his issued patent and pending patent applications to the owner of an Internet travel service that, according to such announcement, commenced on-line operations in the fourth quarter of 1998 and purports to compete with us.

While the interference process is still at an early stage, we believe that we have meritorious defenses to Woolston's claim, which we intend to pursue vigorously. Among other things, we believe that the Woolston patent application does not disclose the inventions covered by the priceline.com patent claims. However, it is impossible to predict the outcome of an interference with certainty. While Woolston claims to have an earlier invention date by a period of approximately sixteen months, the final decision as to priority of invention would be made by the Patent Office after considering facts provided by each party during the interference proceeding. If an interference is declared and thereafter resolved in favor of Woolston, such resolution could result in an award of some or all of the disputed patent claims to Woolston. If, following such award, Woolston were successful in a patent infringement action against us, including prevailing over all defenses available to us such as those of non-infringement and invalidity, this could require us to obtain licenses from Woolston at a cost which could significantly adversely affect our business. If, in addition to prevailing in both an interference and an infringement action, Woolston were able to make the showings necessary to obtain an injunction, then we could be enjoined from conducting business through the priceline.com service to the extent covered by the patent claims awarded to Woolston. In addition, defense of the interference action may be expensive and may divert management attention away from our business.

#### TRADEMARKS, COPYRIGHTS AND TRADE SECRETS

We regard the protection of our copyrights, service marks, trademarks, trade dress and trade secrets as critical to our future success. We rely on a combination of laws and contractual restrictions, such as confidentiality agreements to establish and protect our proprietary rights. However, laws and contractual restrictions may not be sufficient to prevent misappropriation of our technology or deter others from developing similar technologies. We also attempt to register our trademarks and service marks in the United States and internationally. However, effective trademark, service mark, copyright and trade secret protection may not be obtainable and/or available in every country in which our services are made available online.

#### PENDING LITIGATION

On January 19, 1999, a complaint was filed, and on February 22, 1999 an amended and supplemental complaint was filed, in the United States District Court for the Northern District of California by Marketel International, Inc., a California corporation, under the caption MARKETEL INTERNATIONAL INC. V. PRICELINE.COM ET. AL., No. C-99-1061 (N.D. CA 1999), against priceline.com, Priceline Travel, Walker Asset Management, Walker Digital, Mr. Jay S. Walker, our Founder and Vice Chairman, and Mr. Andre Jaeckle, an individual who made a \$1.0 million loan to priceline.com bearing interest at a rate of 6% per year, and in connection therewith, received warrants, which have subsequently been fully exercised, to purchase 62,500 shares of



our common stock. The amended complaint filed by Marketel which joins as defendants, Mr. Timothy G. Brier, our Executive Vice President, Travel, Mr. Bruce Schneier, an individual and consultant to Walker Digital, and Mr. James Jorasch, an individual and employee of Walker Digital alleges causes of action for, among other things, misappropriation of trade secrets, breach of contract, conversion, breach of confidential relationship, copyright infringement, fraud, unfair competition, and false advertising, and seeks injunctive relief and damages in an unspecified amount. In its amended complaint, Marketel alleges, among other things, that the defendants conspired to misappropriate Marketel's business model, which it describes as a buyer-driven electronic marketplace for travel services and its appurtenant techniques, market research, forms, plans and processes, and which an executive of Marketel allegedly provided to Messrs. Walker and Jaeckle in confidence approximately ten years ago. The amended complaint also alleges that three former Marketel employees are the actual sole inventors or co-inventors of priceline.com's core buyer driven commerce patent (US patent No. 5794207), which was issued on August 11, 1998 with Messrs. Jay S. Walker, Bruce Schneier and James Jorasch listed as the inventors and which patent was assigned to Walker Digital and thereafter assigned to priceline.com. Marketel asks that the patent's inventorship be corrected accordingly.

Based upon publicly available information, we believe that Marketel's fax and fee-based business was launched in 1991 and ceased operations seven months later. Our Internet-based model was independently developed at Walker Digital and priceline.com, and practiced by priceline.com starting in 1998. Based on publicly available information and Marketel's amended complaint, we understand that Marketel operated a fax-based travel information service which offered consumers, travel agents and/or consolidators the opportunity to purchase specially printed forms. These forms, when accompanied by an additional non-refundable fee, allowed prospective ticket buyers to fax to Marketel credit-card guaranteed bids for airline travel at a bid price specified by the buyer. We believe that Marketel has not engaged in any regular commercial activities since ceasing operations in 1992. Based upon publicly available information, Marketel reactivated its active status as a corporation by satisfying its back-due tax obligations to the State of California shortly after the filing of the original complaint.

On February 5 and February 10, 1999, the defendants filed their answer and amended answer, respectively, in which they denied the material allegations of liability in the amended complaint. We and all other defendants strongly dispute the material legal and factual allegations contained in Marketel's amended complaint and believe that the amended complaint is without merit. We intend to defend vigorously against the action. However, defending the law suit may involve significant expense and, due to the inherent uncertainties of litigation, there can be no certainty as to the ultimate outcome.

Pursuant to the indemnification obligations contained in the Purchase and Intercompany Services Agreement with Walker Digital, Walker Digital has agreed to indemnify, defend and hold harmless priceline.com for damages, liabilities and legal expenses incurred in connection with the Marketel litigation.

#### DOMAIN NAMES

We currently hold the Internet domain name "priceline.com," as well as various other related names. Domain names generally are regulated by Internet regulatory bodies. The regulation of domain names in the United States and in foreign countries is subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may not acquire or maintain the "priceline.com" domain name in all of the countries in which we conduct business.

The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. Therefore, we could be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights.

## LICENSES

In the future, we may license portions of our intellectual property, including our issued patents, to third parties. To date, we have granted a small business providing online travel services immunity from suit under our core Internet-based buyer-driven commerce system patent, on the condition that the nature and scope of such business is not significantly changed. If the nature or scope of such immunity were disputed, we would need to institute proceedings to enforce our rights either under the immunity agreement or under the patent.

## THE SUCCESS OF OUR BUSINESS WILL DEPEND ON CONTINUED GROWTH OF INTERNET COMMERCE

The market for the purchase of products and services over the Internet is a new and emerging market. As an Internet commerce business, our future revenues and profits are substantially dependent upon the widespread acceptance and use of the Internet and other online services as a medium for commerce by consumers and sellers. If acceptance and growth of Internet use does not occur, our business and financial performance will suffer. Rapid growth in the use of and interest in the Internet and other online services is a recent phenomenon. This growth may not continue. A sufficiently broad base of consumers may not adopt, or continue to use, the Internet as a medium of commerce. Demand for and market acceptance of recently introduced products and services over the Internet are subject to a high level of uncertainty, and there are few proven products and services. For us to grow, consumers that historically have purchased through traditional means of commerce, such as a travel agent for airline tickets or visiting a branch of a bank for a home mortgage, will need to elect to purchase online products and services. Sellers of products and services will need to adopt or expand use of the Internet as a channel of distribution.

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. Our success will depend upon the development and maintenance of the Internet's infrastructure to cope with this increased traffic. This will require a reliable network backbone with the necessary speed, data capacity and security, and the timely development of complementary products, such as high-speed modems, for providing reliable Internet access and services.

The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure and could face such outages and delays in the future. Outages and delays are likely to affect the level of Internet usage and the processing of transactions on the priceline.com Web site. It is unlikely that the level of orders lost in those circumstances could be made up by increased phone orders. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards to handle increased levels of activity or due to increased government regulation. The adoption of new standards or government regulation may, however, require us to incur substantial compliance costs.

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

The markets in which we compete are characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing consumer demands. We may not be able to keep up with these rapid changes. In addition, these market characteristics are heightened by the emerging nature of the Internet and the apparent need of companies from many industries to offer Internet-based products and services. As a result, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to continually improve the performance, features and reliability of our service in response to competitive service and product offerings and the evolving demands of the marketplace. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to modify or adapt our services or infrastructure.

#### YEAR 2000 RISKS MAY HARM OUR BUSINESS

The risks posed by Year 2000 issues could adversely affect our business in a number of significant ways. Although we believe that our internally developed systems and technology are Year 2000 compliant, our information technology systems nevertheless could be substantially impaired or cease to operate due to Year 2000 problems. Additionally, we rely on information technology supplied by third parties, and our participating sellers also are heavily dependent on information technology systems and on their own third party vendors' systems. Year 2000 problems experienced by us or any of such third parties could materially adversely affect our business. Additionally, the Internet could face serious disruptions arising from the Year 2000 problem.

We are evaluating our internal information technology systems and contacting our information technology suppliers and participating sellers to ascertain their Year 2000 status. However, we cannot guarantee that our own systems will be Year 2000 compliant in a timely manner, that any of our participating sellers or other Web site vendors will be Year 2000 compliant in a timely manner, or that there will not be significant interoperability problems among information technology systems. We also cannot guarantee that consumers will be able to visit our Web site without serious disruptions arising from the Year 2000 problem. Given the pervasive nature of the Year 2000 problem, we cannot guarantee that disruptions in other industries and market segments will not adversely affect our business. Moreover, the costs related to Year 2000 compliance could be significant. Moreover, participating sellers in priceline.com services might experience substantial slow-downs in business if consumers avoid products and services such as air travel both before and after January 1, 2000 arising from concerns about reliability and safety because of the Year 2000 issue.

#### ONLINE SECURITY BREACHES COULD HARM OUR BUSINESS

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

We incur substantial expense to protect against and remedy security breaches and their consequences. A party that is able to circumvent our security systems could steal proprietary information or cause interruptions in our operations. Security breaches also could damage our reputation and expose us to a risk of loss or litigation and possible liability. Our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches. We cannot guarantee that our security measures will prevent security breaches.

We also face risks associated with security breaches affecting third parties conducting business over the Internet. Consumers generally are concerned with security and privacy on the Internet and any publicized security problems could inhibit the growth of the Internet and, therefore, the priceline.com service as a means of conducting commercial transactions.

#### OUR STOCK PRICE IS LIKELY TO BE VERY VOLATILE

Prior to this offering, you could not buy or sell our common stock publicly. Although the initial public offering price was determined based on several factors, the market price after the offering may vary from the initial offering price. The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results;

- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- changes in market valuations of other Internet or online service companies;
- announcements of technological innovations or new services by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- loss of a major seller participant, such as an airline or hotel chain;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us;
- additions or departures of key personnel;
- future sales of our common stock; and
- stock market price and volume fluctuations.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations, could adversely affect the market price of our common stock.

The market prices for stocks of Internet-related and technology companies, particularly following an initial public offering, frequently increase to levels that bear no relationship to the operating performance of such companies. Such market prices generally are not sustainable and are subject to wide variations. If our common stock trades to such levels following this offering, it likely will thereafter experience a material decline.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

#### REGULATORY AND LEGAL UNCERTAINTIES COULD HARM OUR BUSINESS

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

#### TRAVEL SERVICES

We are subject to the laws and regulations of a number of states governing the offer and/or sale of travel services. For example, Priceline Travel, Inc. is registered as a "seller of travel" under the California Seller of Travel Act and is a member of the Airline Reporting Corporation. Priceline.com also will be making similar filings for registration and membership prior to consummation of this offering. In addition, a number of state travel laws and regulations require compliance with specific disclosure, bond and/or other requirements. All travel registrations are presently held by Priceline Travel. To the extent that such registrations can be transferred by merger, we intend to succeed to all such registrations by merging with Priceline Travel prior to the consummation of this offering. We expect to obtain all other required travel related registrations prior to the consummation of this offering.

## NEW CAR SALES

A number of states have laws and regulations governing the registration and conduct of automobile dealers and brokers. Such laws generally provide that any person receiving direct or indirect compensation for selling automobiles or brokering automobile transactions must register as an automobile broker or dealer. Registration for automobile dealers/brokers may, among other things, require the registrant to maintain a physical office in the applicable state, a dealer lot zoned for automobile sales within the applicable state, and/or a franchise agreement with the manufacturers of the automobiles to be sold. We believe that we are not subject to such automobile dealer/broker laws because we are a car buying service, and not a seller or broker of automobiles, operating on behalf of customers and participating dealers.

It is uncertain how automobile dealer and broker laws apply to the provision of automobile selling services offered through the Internet. We have been orally advised by representatives of a number of states that no enforcement action will be initiated against Internet companies generally for non-compliance with such laws until clearer regulatory or legislative guidance is provided.

It is possible, however, that state regulatory bodies could take the view that we are subject to automobile broker and dealer laws, in which case they could attempt to require us to register as an automobile broker/dealer in the applicable states. Given the nature of our business, any requirement to register under such laws could severely interfere with the conduct of our business.

## HOME MORTGAGES

Most states have laws and regulations governing the registration or licensing and conduct of persons providing mortgage brokerage services. Such laws and regulations also typically require certain consumer protection disclosures and compliance with loan solicitation procedures and a variety of other practices, throughout the various stages of the mortgage solicitation, application and approval process.

In addition to state law, mortgage brokerage services are heavily regulated by federal law. For example, the Real Estate Settlement Procedures Act, prohibits the payment and receipt of mortgage loan referral fees. The act, however, does permit persons to be compensated for the fair market value of non-referral services actually rendered.

We introduced our home mortgage service in January 1999. LendingTree serves as the mortgage broker and provides all mortgage brokerage services. We provide and are responsible for maintaining the home mortgage service on our Web site and develop and purchase all advertising. LendingTree will compensate us for the fair market value of our non-referral services. We believe that offering the home mortgage service does not require our registration under or compliance with the mortgage or similar brokerage laws of any jurisdiction. However, it is possible that one or more regulatory authorities could seek to enforce existing laws, or otherwise enact new legislation, requiring our registration and compliance and could scrutinize our compensation arrangement with LendingTree under the Real Estate Settlement Procedures Act or other federal or state laws. Such action could severely interfere with the conduct of our business.

LendingTree provides the mortgage brokerage services offered through the home mortgage service on our Web site and is responsible for maintaining the necessary and appropriate state registrations and licenses associated with LendingTree's provision of those mortgage brokerage services. If a state or federal regulatory authority, or an aggrieved customer, should in the future claim that LendingTree has failed to comply fully with applicable state or federal law requirements pertaining to LendingTree's provision of mortgage brokerage services, our home mortgage service could be materially and adversely affected and we may be unable to continue to make our home mortgage service available.

## CONSUMER PROTECTION AND RELATED LAWS

All of our services are subject to federal and state consumer protection laws and regulations prohibiting unfair and deceptive trade practices. We are also subject to related "plain language" statutes in

place in many jurisdictions, which require the use of simple, easy to read, terms and conditions in contracts with consumers.

Although there are very few laws and regulations directly applicable to the protection of consumers in an online environment, it is possible that legislation will be enacted in this area and could cover such topics as permissible online content and user privacy, including the collection, use, retention and transmission of personal information provided by an online user. Furthermore, the growth and demand for online commerce could result in more stringent consumer protection laws that impose additional compliance burdens on online companies. Such consumer protection laws could result in substantial compliance costs and interfere with the conduct and growth of our business.

#### BUSINESS QUALIFICATION LAWS

Because our service is available over the Internet in multiple states, and because we sell to numerous consumers resident in such states, such jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each such state. We are qualified to do business in a limited number of states, and our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties for the failure to so qualify and limit our ability to conduct litigation in such states.

#### INTERNATIONAL EXPANSION

We intend to explore opportunities for expanding our business into international markets. It is possible, however, that the priceline.com demand collection system will not be readily adaptable to the regulatory environments of certain foreign jurisdictions. In addition, there are various other risks associated with international expansion. They include language barriers, unexpected changes in regulatory requirements, trade barriers, problems in staffing and operating foreign operations, changes in currency exchange rates, difficulties in enforcing contracts and other legal rights, economic and political instability and problems in collection.

#### OUR BUSINESS IS SUBJECT TO TAX UNCERTAINTIES

##### POTENTIAL FEDERAL AIR TRANSPORTATION TAX LIABILITY

Currently, a federal air transportation tax is imposed upon the sale of airline tickets and generally is collected by the airlines selling the tickets. The tax is based upon a percentage of the cost of transportation, which was 9% for periods prior to October 1, 1998 and 8% thereafter. Because of the unique pricing structures employed in the priceline.com service, such as the amount paid by the customer for a ticket being different than the amount charged by the airline for the same ticket with the excess payment, if any, going to us as a charge for the use of our proprietary business method, it is not clear how this federal tax should be calculated when sales occur using the priceline.com service. We have been calculating this tax based on the price charged by the airline for a ticket, rather than the price paid by the customer. There is a possibility that current law requires computation of the tax based on the price paid by the customer to us. Due to the uncertainty of how the federal air transportation tax applies to sales of airline tickets using the priceline.com service, we have submitted a written request to the United States Internal Revenue Service seeking a determination of our federal air transportation tax obligations. Such determination may not be favorable and may require us to collect the federal air transportation tax on the total amount paid by consumers for air travel.

If the determination of the Internal Revenue Service is unfavorable, we could owe approximately \$111,000 in additional taxes as of December 31, 1998. We have accrued for such potential liability in our combined balance sheet as of December 31, 1998 and are providing for such potential liability on an ongoing basis. We have agreed to indemnify and hold harmless certain of our participating airlines from any liability with respect to such taxes, as well as to secure the payment of such taxes by a letter of credit.

## STATE TAXES

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

Legislation limiting the ability of the states to impose taxes on Internet-based transactions recently has been enacted by the United States Congress. However, this legislation, known as the Internet Tax Freedom Act, imposes only a three-year moratorium, which commenced October 1, 1998 and ends on October 21, 2001, on state and local taxes on (1) electronic commerce where such taxes are discriminatory and (2) Internet access unless such taxes were generally imposed and actually enforced prior to October 1, 1998. It is possible that the tax moratorium could fail to be renewed prior to October 21, 2001. Failure to renew this legislation would allow various states to impose taxes on Internet-based commerce. The imposition of such taxes could adversely affect our ability to become profitable.

## CONCENTRATED CONTROL COULD ADVERSELY AFFECT STOCKHOLDERS

Upon consummation of this offering, Mr. Jay S. Walker, the Founder and Vice Chairman of priceline.com, and Mr. Richard S. Braddock, Chief Executive Officer of priceline.com, together with their respective affiliates, will beneficially own approximately 44.0 and 10.3 percent (43.6 and 10.2 percent, respectively, if the underwriters' over-allotment option is exercised in full), of our outstanding common stock, subject to certain adjustments. As a result, if Messrs. Walker and Braddock act together, they will have the ability to control the outcome on all matters requiring stockholder approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets, and the ability to control our management and affairs. Such control could discourage others from initiating potential merger, takeover or other change of control transactions. As a result, the market price of our common stock could be adversely affected.

## WE MAY BE UNABLE TO MEET OUR FUTURE CAPITAL REQUIREMENTS

Based on our current operating plan, we anticipate that the net proceeds of this offering, together with our available funds, will be sufficient to satisfy our anticipated needs for working capital, capital expenditures and business expansion for at least the next three years. After that time, we may need additional capital. Alternatively, we may need to raise additional funds sooner in order to fund more rapid expansion, to develop new or enhanced services, or to respond to competitive pressures. If we raise additional funds by issuing equity or convertible debt securities, the percentage ownership of our stockholders will be diluted. Furthermore, any new securities could have rights, preferences and privileges senior to those of the common stock.

We currently do not have any commitments for additional financing. We cannot be certain that additional financing will be available when and to the extent required or that, if available, it will be on acceptable terms. If adequate funds are not available on acceptable terms, we may not be able to fund our expansion, develop or enhance our products or services or respond to competitive pressures.

## SUBSTANTIAL SALES OF OUR COMMON STOCK COULD ADVERSELY AFFECT OUR STOCK PRICE

Sales of a substantial number of shares of common stock after the offering could adversely affect the market price of the common stock by introducing a large number of sellers to the market. Given the likely

volatility that will exist for our shares, such sales could cause the market price of the common stock to decline.

After this offering, we will have outstanding 142,320,430 shares of common stock (143,820,430 shares if the underwriters' over-allotment option is exercised in full), and we will have reserved an additional 54,056,903 shares of common stock for issuance pursuant to outstanding stock options and warrants. All of the shares of common stock to be sold in this offering will be freely tradable without restriction or further registration under the federal securities laws unless purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended. The remaining shares of outstanding common stock, representing approximately 93% (92% if the underwriter's over-allotment option is exercised in full) of the outstanding common stock upon completion of this offering, will be "restricted securities" under the Securities Act subject to restrictions on the timing, manner and volume of sales of such shares.

Our directors, executive officers, key employees and substantially all of our current stockholders have agreed, subject to certain limited exceptions, for a period of 180 days after the date of this prospectus, that they will not, without the prior written consent of Morgan Stanley & Co. Incorporated, directly or indirectly, offer to sell, sell or otherwise dispose of any shares of common stock. Subject to the foregoing lock-up agreements, holders of up to 144,256,702 shares of common stock and securities convertible into or exercisable for shares of common stock will have the right to request the registration of their shares under the Securities Act. Upon the effectiveness of such registration, all shares covered by such registration statement will be freely transferable. Following the consummation of this offering, we also intend to file a registration statement on Form S-8 under the Securities Act covering 23,875,000 shares of common stock reserved for issuance under the 1997 Omnibus Plan and 9,375,000 shares of common stock reserved for issuance under the 1999 Omnibus Plan; such registration statement will automatically become effective upon filing. Of the number of shares subject to outstanding options at March 17, 1999, 10,580,521 options have vested as of such date. However, none of the options issued or to be issued pursuant to the 1997 Omnibus Plan or the 1999 Omnibus Plan may be exercised until 180 days after the offering. Subject to the exercise of such options, shares registered under such registration statement will be available for sale in the open market immediately after the 180-day lock-up period expires.

We cannot predict if future sales of our common stock, or the availability of our common stock for sale, will adversely affect the market price for our common stock or our ability to raise capital by offering equity securities.

#### ANTI-TAKEOVER PROVISIONS AFFECTING US COULD PREVENT OR DELAY A CHANGE OF CONTROL

Provisions of our certificate of incorporation and by-laws and provisions of applicable Delaware law may discourage, delay or prevent a merger or other change of control that a stockholder may consider favorable. Our board of directors has the authority to issue up to 150,000,000 shares of preferred stock par value \$0.01 per share, of priceline.com and to determine the price and the terms, including preferences and voting rights, of those shares without stockholder approval. Although we have no current plans to issue additional shares of our preferred stock, any such issuance could:

- have the effect of delaying, deferring or preventing a change in control of our company;
- discourage bids for our common stock at a premium over the market price; or
- adversely affect the market price of, and the voting and other rights of the holders of, our common stock.

We are subject to certain Delaware laws that could have the effect of delaying, deterring or preventing a change in control of our company. One of these laws prohibits us from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met. In addition, certain provisions of our certificate of incorporation and by-laws, and the significant amount of common stock held by our executive



officers, directors and affiliates, could together have the effect of discouraging potential takeover attempts or making it more difficult for stockholders to change management.

OUR MANAGEMENT HAS BROAD DISCRETION OVER USE OF THE PROCEEDS FROM THIS OFFERING

The net proceeds of this offering are estimated to be approximately \$72,263,530 million (approximately \$84,263,530 million, if the Underwriters' over-allotment option is exercised in full) at an assumed initial public offering price of \$8.00 per share and after deducting the estimated underwriting discount and estimated offering expenses. Our management will retain broad discretion as to the allocation of the proceeds of this offering.

YOU WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION

The initial public offering price is expected to be substantially higher than the net tangible book value of each outstanding share of common stock. Purchasers of common stock in this offering will suffer immediate and substantial dilution. The dilution will be \$7.10 per share in the net tangible book value of the common stock from the expected initial public offering price. If outstanding options and warrants to purchase shares of common stock are exercised, there would be further dilution.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in this prospectus.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms or other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus.

## USE OF PROCEEDS

The primary purposes of this offering are to obtain additional capital, create a public market for the common stock and facilitate future access to public markets. The net proceeds to priceline.com from the sale of the 10,000,000 shares of common stock offered hereby are estimated to be approximately \$72,263,530 million (approximately \$84,263,530 million, if the underwriters' over-allotment option is exercised in full), assuming an initial public offering price of \$8.00 per share and after deducting estimated offering expenses of \$7,736,470 and the underwriting discount payable by priceline.com. Priceline.com intends to use the remainder of the net proceeds, over time, for general corporate purposes, including working capital to fund anticipated operating losses, expenses associated with our advertising campaigns, brand-name promotions and other marketing efforts and capital expenditures. Priceline.com also could use a portion of the net proceeds, currently intended for general corporate purposes, to acquire or invest in businesses, technologies, products or services, although no specific acquisitions are planned and no portion of the net proceeds has been allocated for any acquisition.

As of the date of this prospectus, priceline.com cannot specify with certainty the particular uses for the net proceeds to be received upon the consummation of this offering. Accordingly, priceline.com's management will have broad discretion in the application of the net proceeds. Pending such uses, priceline.com intends to invest the net proceeds from this offering in short-term, interest-bearing, investment-grade securities. See "Risk Factors -- We May Be Unable to Meet Our Future Capital Requirements" and "Risk Factors -- Our Management Has Broad Discretion Over Use of the Proceeds of this Offering."

## DIVIDEND POLICY

Priceline.com has not declared or paid any cash dividends on its capital stock since its inception and does not expect to pay any cash dividends in the foreseeable future. Priceline.com currently intends to retain future earnings, if any, to finance the expansion of its business.

CAPITALIZATION

Unless otherwise indicated, all information in this prospectus (1) reflects a 1.25 for one stock split of our common stock and the conversion of all outstanding shares of our convertible preferred stock into 38,907,730 shares of common stock upon the consummation of this offering and (2) assumes that the underwriters' over-allotment option will not be exercised. See "Description of Capital Stock" and "Underwriters."

The following table sets forth the capitalization of priceline.com as of December 31, 1998: (1) on an actual basis and (2) on a pro forma basis to reflect the consummation of the merger between priceline.com and Priceline Travel, Inc. prior to the consummation of this offering, as adjusted to reflect (a) the conversion of all outstanding shares of convertible preferred stock into common stock upon the consummation of this offering and (b) the receipt by priceline.com of the estimated net proceeds from the sale of the 10,000,000 shares of common stock offered hereby at an assumed initial public offering price of \$8.00 per share (after deducting the estimated offering expenses and underwriting discount). This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and related notes thereto included elsewhere in this prospectus.

	AS OF DECEMBER 31, 1998	
	ACTUAL	PRO FORMA AS ADJUSTED
		RESTATE(B)
Long-Term Debt--net.....	\$ 989,018	\$ 989,018
Capital Lease Obligations--net of current portion.....	26,074	26,074
Total debt.....	1,015,092	1,015,092
Stockholders' equity: (a)		
Common Stock, priceline.com, \$0.008 par value--Authorized, 300,000,000 shares; issued and outstanding, 93,225,200 and 142,132,931 shares, actual and pro forma as adjusted, respectively; Priceline Travel, \$1.00 par value--Authorized, issued and outstanding, 3,000 shares actual and 0 shares pro forma as adjusted.....	748,802	1,137,063
Convertible Preferred Stock, \$0.01 par value; Authorized 150,000,000 Series A--\$1.16 liquidation value; issued and outstanding 17,288,684 and 0, actual and pro forma as adjusted, respectively.....	172,887	--
Series B--\$4.00 liquidation value; issued and outstanding, 13,837,500 and 0, actual and pro forma as adjusted, respectively.....	138,375	--
Additional paid-in capital(b).....	171,155,186	243,341,717
Accumulated deficit(b).....	(116,939,405)	(116,939,405)
Total stockholders' equity.....	55,275,845	127,539,375
Total capitalization.....	\$ 56,290,937	\$ 128,554,467

(a) Excludes (1) 23,689,438 shares of common stock issuable on exercise of options outstanding as of March 17, 1999, with a weighted average exercise price of approximately \$1.25 per share; (2) 9,560,562 additional shares of common stock reserved for issuance under the 1997 Omnibus Plan and the proposed 1999 Omnibus Plan; (3) 18,619,403 shares of common stock issuable upon exercise of outstanding warrants at an exercise price of approximately \$0.93 per share; (4) 937,500 shares of common stock issuable upon exercise of outstanding warrants at an exercise price of \$3.20 per share; and (5) 1,250,000 shares of common stock issuable upon exercise of warrants at an exercise price of \$6.40 per share.

(b) As restated see Note 13 to the 1998 combined financial statements.

DILUTION

The pro forma net tangible book value of priceline.com as of December 31, 1998 was \$55.3 million, or \$0.42 per share. Pro forma net tangible book value per share is determined by dividing the pro forma number of outstanding shares of common stock, after giving effect to the conversion of all outstanding shares of our convertible preferred stock into 38,907,730 shares of common stock, into the net tangible book value of priceline.com (total tangible assets less total liabilities). Assuming the sale by priceline.com of the 10,000,000 shares of common stock offered hereby at an assumed initial public offering price of \$8.00 per share and after deducting the estimated underwriting discount and estimated offering expenses, the pro forma net tangible book value of priceline.com as of December 31, 1998 would have been approximately \$127,539,375, or \$0.90 per share. This represents an immediate increase in pro forma net tangible book value of \$0.48 per share to existing stockholders and an immediate dilution of \$7.10 per share to new investors purchasing shares at the initial public offering price. The following table illustrates the per share dilution:

Assumed initial public offering price per share.....	\$	8.00
Pro forma net tangible book value per share as of December 31, 1998.....	\$	0.42
Increase in pro forma net tangible book value per share attributable to new investors.....		0.48
		-----
Pro forma net tangible book value per share after the offering.....		0.90
		-----
Dilution per share to new investors.....	\$	7.10
		-----
		-----

The following table summarizes as of December 31, 1998, on the pro forma basis described above, the number of shares of capital stock purchased from priceline.com, the total consideration paid to priceline.com and the average price per share paid by existing stockholders and by investors purchasing shares of common stock in this offering at an assumed initial public offering price of \$8.00 (before deducting the estimated underwriting discount and estimated offering expenses):

	SHARES PURCHASED (A)		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	132,132,931	93.0%	\$ 102,166,274	56.1%	\$ 0.77
New investors.....	10,000,000	7.0	80,000,000	43.9	8.00
	-----	-----	-----	-----	-----
Total.....	142,132,931	100.0%	\$ 182,166,274	100.0%	1.28
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----

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(a) Sale by priceline.com of additional shares of common stock upon exercise in full of the underwriters' over-allotment option will reduce the percentage of common stock held by existing stockholders to 92% of the total number of shares of common stock to be outstanding upon consummation of this offering and will increase the number of shares of common stock held by new investors to 11,500,000 shares or 8.0% of the total number of shares of common stock to be outstanding upon consummation of this offering. See "Principal Stockholders."

The foregoing discussion and tables exclude (1) 23,689,438 shares of common stock issuable on exercise of options outstanding as of March 17, 1999, with a weighted average exercise price of approximately \$1.25 per share; (2) 9,560,562 additional shares of common stock reserved for issuance under the 1997 Omnibus Plan and the proposed 1999 Omnibus Plan; (3) 18,619,403 shares of common stock issuable upon exercise of outstanding warrants at an exercise price of approximately \$0.93 per share; (4) 937,500 shares of common stock issuable upon exercise of outstanding warrants at an exercise price of \$3.20 per share; and (5) 1,250,000 shares of common stock issuable upon exercise of warrants at an exercise price of \$6.40 per share.



SELECTED COMBINED FINANCIAL DATA

The following selected combined financial data should be read in conjunction with the combined financial statements of priceline.com and Priceline Travel and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The combined statement of operations data for the year ended December 31, 1998 and the period July 18, 1997 (Inception) to December 31, 1997 and the combined balance sheet data as of December 31, 1998 are derived from the combined financial statements of priceline.com and Priceline Travel included elsewhere in this prospectus. Priceline.com's travel agency license is held by Priceline Travel and all of its airline ticket sales have been effected through Priceline Travel, which will be merged with and into priceline.com prior to the consummation of this offering. Accordingly, the financial statements of Priceline Travel are presented on a combined basis with priceline.com.

	JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997 -----	YEAR ENDED DECEMBER 31, 1998 ----- RESTATED (C)
COMBINED STATEMENT OF OPERATIONS DATA:		
Revenues.....	\$ --	\$ 35,236,860
Cost of revenues:		
Product costs.....	--	33,495,745
Supplier warrant costs (a).....	--	3,029,014
Total cost of revenues.....	----- --	----- 36,524,759
Gross profit (loss).....	----- --	----- (1,287,899)
Expenses:		
Supplier start-up warrant costs (a).....	--	57,978,678
Sales and marketing.....	441,479	24,388,061
General and administrative (b).....	1,011,600	18,004,585
Systems and business development.....	1,060,091	11,131,650
Total expenses.....	----- 2,513,170	----- 111,502,974
Operating loss.....	----- (2,513,170)	----- (112,790,873)
Interest income (expense), net.....	(312)	548,374
Net loss.....	----- (2,513,482)	----- (112,242,499)
Accretion on preferred stock.....	--	(2,183,424)
Net loss applicable to common shareholders.....	----- \$ (2,513,482)	----- \$ (114,425,923)
Basic and diluted loss per common share.....	----- \$ (0.05)	----- \$ (1.41)
Weighted average common shares outstanding.....	----- 50,833,756	----- 81,231,425

	AS OF DECEMBER 31, 1998 -----	
	ACTUAL	PRO FORMA AS ADJUSTED (D)
	-----	-----
COMBINED BALANCE SHEET DATA:		
Cash and cash equivalents.....	\$ 53,593,026	\$ 125,856,556
Working capital.....	49,922,000	122,185,530
Total assets.....	66,572,485	138,836,015
Long-term debt and capital lease obligation.....	1,015,092	1,015,092
Total liabilities.....	11,296,640	11,296,640
Total stockholders' equity.....	55,275,845	127,539,375

(a) Represents a non-cash charge for warrants issued to certain of our participating airlines.

(b) Includes a non-cash charge of \$6,500,000 with respect to common stock issued as executive compensation.

(c) As restated see Note 13 to the 1998 combined financial statements.

(d) Reflects (1) a 1.25 for one stock split of our common stock and the conversion of all outstanding shares of convertible preferred stock into 38,907,730 shares of common stock upon consummation of this offering, and (2) the receipt by priceline.com of the estimated net proceeds from the sale of the 10,000,000 shares of common stock offered hereby at an assumed initial public offering price of \$8.00 per share (after deducting the estimated offering expenses and underwriting discount).

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH FORWARD-LOOKING STATEMENTS. SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS." THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF PRICELINE.COM ALSO SHOULD BE READ IN CONJUNCTION WITH THE COMBINED FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS.

OVERVIEW

Priceline.com has pioneered a unique new type of e-commerce known as a "demand collection system" that enables consumers to use the Internet to save money on a wide range of products and services while enabling sellers to generate incremental revenue. Using a simple and compelling consumer proposition--"name your price," priceline.com collects consumer demand, in the form of individual customer offers guaranteed by a credit card, for a particular product or service at a price set by the customer. Priceline.com then either communicates that demand directly to participating sellers or accesses participating sellers' private databases to determine whether it can fulfill the customer's offer on the basis of the pricing information and rules established by the sellers. Consumers agree to hold their offers open for a specified period of time and, once fulfilled, offers cannot be canceled. Priceline.com benefits consumers by enabling them to save money, while at the same time benefitting sellers by providing them with an effective revenue management tool capable of identifying and capturing incremental revenues. By requiring consumers to be flexible with respect to brands, sellers and product features, priceline.com enables sellers to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures.

Priceline.com was formed in July 1997 and its primary activities during the period prior to launch consisted of recruiting and training employees, developing its business model, implementing systems to support its business model, developing relationships with seller participants and developing the priceline.com brand. Priceline.com commenced operations in April 1998 with the sale of leisure airline tickets. Priceline.com's services were expanded to include the sale of new automobiles, on a test basis, in July 1998, hotel room reservations in October 1998 and home mortgages through a third party mortgage service in January 1999. The number of employees of priceline.com increased from 10 to 123 during the period from inception through the year ended December 31, 1998, and as of March 17, 1999 priceline.com had 177 employees.

Priceline.com earns revenues upon the completion of successful transactions through the priceline.com service, which in certain cases includes revenues generated through adaptive marketing programs offered through the priceline.com service. The manner in which priceline.com earns revenues varies, however, depending on the product or service sold. With respect to airline and hotel reservation services, priceline.com earns the spread between the customer's named price and the fare or rate charged by the seller. With respect to the automobile service, it earns a fixed fee from both the customer and the seller after the transaction is consummated. With respect to the home mortgage service, it receives a payment equal to a percentage of the net revenue generated from the mortgage program, which is operated in conjunction with LendingTree, Inc. Priceline.com also generates revenues through adaptive marketing programs with third parties that pay priceline.com fees for marketing their customer acquisition programs. Revenues from adaptive marketing promotions currently consist primarily of fees paid by a third-party credit card issuer for qualifying credit card applications submitted through the priceline.com service in connection with offers for airline tickets. Consumer fees are payable only upon completion of successful transactions.

All offers made through the priceline.com service are guaranteed by a customer credit card and credit cards are the only form of payment accepted by priceline.com. The manner in which and time at which



revenues are recognized differs depending on the product or service sold through the priceline.com service. With respect to airline ticket and hotel reservation services, revenues are generated by transactions with customers who make offers to purchase airline tickets and reserve hotel rooms supplied by participating sellers. Revenues and related costs are recognized if, and when, priceline.com accepts the customer's offer and charges the customer's credit card. Because priceline.com is the merchant of record in these transactions, revenue for these services includes the amount billed to the customer, net of certain transportation taxes and fees. Airline and hotel revenues also may include fees from third parties for adaptive marketing programs. With respect to automobile and mortgage services, fees or other payments payable by the seller and/or the customer are recognized as revenue. Because priceline.com acts as an intermediary between the customer and the seller in these transactions, revenues for these products and services is recorded at the amount of the fee received in connection with the transaction, and not on the value of the underlying transaction, when the transaction is completed. Automobile and mortgage services revenues also may include fees from third parties for adaptive marketing programs.

Priceline.com believes that its offer fulfillment rate for airline tickets was constrained during 1998 by the availability of airline ticket inventory, which initially was limited by the inclusion of only Trans World Airlines and America West Airlines as participating domestic carriers. With the addition of Delta Air Lines on a part time basis in September 1998 and on a full time basis in November 1998, and the addition of Northwest Airlines in October 1998, priceline.com has expanded its potential inventory breadth to cover more domestic markets and has increased the depth of potential inventory in markets that priceline.com serves. Priceline.com believes that it can increase the amount of ticket sales and improve its offer fulfillment rate as its business matures by (1) expanding the depth and breadth of airline ticket inventory, (2) demonstrating to airlines how they can utilize revenue management strategies to fulfill a larger share of reasonable offers, and (3) expanding adaptive marketing programs to help increase the number of completed transactions.

During the period from launch through December 31, 1998, priceline.com collected guaranteed offers for approximately 1.9 million airline tickets, representing approximately \$400.0 million in total consumer demand. This demand resulted in sales of approximately 134,900 airline tickets, representing approximately \$30.4 million in revenue. During the two month period from January 1, 1999 through February 28, 1999, priceline.com collected guaranteed offers for approximately 830,300 airline tickets, representing approximately \$169.6 million in total consumer demand. This demand resulted in sales of approximately 102,700 airline tickets, representing approximately \$21.1 million in revenue.

Because the priceline.com system does not set minimum offer thresholds, and consumers are not charged to make offers for airline tickets and other products, it is expected that priceline.com will receive a significant number of unreasonable or fantasy offers. Accordingly, priceline.com also analyzes the percentage of "reasonable" ticket requests that it is able to fill. Priceline.com considers an offer for an airline ticket to be "reasonable" when it is no more than 30% lower than the lowest generally available advance-purchase fare for the same route. Using this standard, the overall percentage of ticket requests considered reasonable for the two-month period ended February 28, 1999 was approximately 53%. The 102,700 tickets sold through priceline.com during the two-month period represented approximately 24% of the combined reasonable ticket requests for domestic and international flights. For domestic routes where priceline.com's airline participants have strong coverage, that percentage was higher, with approximately 26% of all reasonable requests fulfilled for the same two-month period. The percentage of reasonable offers that priceline.com is able to fill can also vary depending on the particular route. For example, priceline.com was able to fill approximately 73% of reasonable offers for tickets from New York to San Francisco, and 73% of reasonable offers for tickets from Los Angeles to London for the two-month period ended February 28, 1999.

Since its inception, priceline.com has incurred net losses in each fiscal quarter. Priceline.com incurred net losses of \$49.0 million during the period from July 18, 1997 (inception) through December 31, 1998, before giving effect to \$67.9 million of non-cash charges arising from equity issuances to a number of our

participating airlines, our chief executive officer and other parties, as more fully described below. As of December 31, 1998, priceline.com had an accumulated deficit of \$116.9 million. Priceline.com believes that its continued growth will depend in large part on its ability to continue to promote the priceline.com brand and to apply the priceline.com business model to a wide range of products and services. Accordingly, priceline.com intends to continue to invest heavily in marketing and promotion, technology and personnel. As a result, it expects to incur additional losses for the foreseeable future. See "Risk Factors -- We Are Not Profitable and Expect to Continue to Incur Losses." In addition, priceline.com's limited operating history makes the prediction of future results of operations difficult, and accordingly, there can be no assurance that it will achieve or sustain revenue growth or profitability. See "Risk Factors -- Potential Fluctuations in Our Financial Results Makes Financial Forecasting Difficult."

For the year ended December 31, 1998, priceline.com recorded aggregate non-cash charges of \$67.9 million. Of this amount, \$6.5 million related to the issuance of 8,125,000 shares of common stock to Mr. Richard S. Braddock, the Chairman and Chief Executive Officer of priceline.com, and \$61.1 million related to the issuance of warrants to purchase 19,744,403 shares of common stock, including warrants to purchase 19,556,903 shares of common stock issued to a number of our participating airlines. Priceline.com intends to hire a new chief operating officer. See "Management -- New Chief Operating Officer." The compensation committee of the board of directors has reserved options to purchase up to 2,000,000 shares of common stock for grant to one or more senior officers, including a new chief operating officer, with an exercise price equal to the initial public offering price. If such options are granted after consummation of this offering, priceline.com will recognize compensation expense to the extent the fair value of the underlying stock exceeds the exercise price over the vesting period of the options. We expect the majority of such options to be granted in the year ended December 31, 1999.

In August 1998, priceline.com entered into a warrant agreement with Delta to purchase up to 18,892,604 shares of common stock at an exercise price of approximately \$0.93 per share. Vesting was contingent upon achievement of certain predetermined performance thresholds. However, there was no penalty for failure to provide ticket inventory to satisfy these performance thresholds. Accordingly, no expense was recorded when the warrant was issued. On December 31, 1998, priceline.com amended its agreement with Delta to eliminate the vesting contingencies and fix the number of shares subject to the warrant at 18,619,403. The amended warrant issued to Delta will become exercisable at the earlier of seven years or upon the achievement of certain performance thresholds. However, the agreement does not require Delta to make any performance commitments, is non-exclusive and allows Delta to participate in other programs similar to the priceline.com service. Included in the non-cash charges described above is approximately \$58.7 million reflecting the fair value of the Delta warrant on December 31, 1998.

Priceline.com's travel agency license is held by Priceline Travel, a separate company owned by Mr. Jay S. Walker, priceline.com's Founder and Vice Chairman, and all of its airline ticket sales have been effected through Priceline Travel, which will be merged with and into priceline.com prior to the consummation of this offering. Accordingly, the financial statements of Priceline Travel are presented on a combined basis with priceline.com.

#### RESULTS OF OPERATIONS

##### YEAR ENDED DECEMBER 31, 1998

Priceline.com was formed in July 1997, but did not commence operations until April 1998. Because of priceline.com's limited operating history, comparisons with prior periods are not meaningful.

#### RESTATEMENT

Subsequent to the issuance of priceline.com's combined 1998 financial statements, priceline.com's management determined that the calculation of the fair value of the Delta warrant, other airline warrants and the beneficial conversion feature on the series B preferred stock should be revised. The fair value of

the Delta warrant and the other airline warrants has been revised to reflect the change in the volatility assumption from 50% to 132%, eliminate the "large block" and lack of marketability discounts, and consider the warrant's anti-dilution and exercisability features. As a result, the 1998 combined financial statements have been restated from the amounts previously reported to recognize an additional \$22.0 million of expense based upon the revised fair value of the warrants at December 31, 1998, of which \$3.0 million is included in the cost of revenues-supplier warrant costs and \$19.0 million is included in expenses-supplier start-up warrant costs. In addition, the value of the beneficial conversion feature on the series B preferred stock has been revised to calculate such amount based on 22,500,000 shares. As a result, additional paid-in capital and accumulated deficit have been restated from amounts previously reported to recognize an additional \$883,425 of accretion of preferred stock based on the revalued beneficial conversion feature.

A summary of the significant effects of the restatement is as follows:

	AS PREVIOUSLY REPORTED	AS RESTATED
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At December 31, 1998:		
Additional paid-in capital.....	\$ 148,224,070	\$ 171,155,186
Accumulated deficit.....	(94,008,289)	(116,939,405)
For the year ended December 31, 1998:		
Cost of revenues-supplier warrant costs.....	--	3,029,014
Expenses-supplier start-up warrant costs.....	38,960,000	57,978,678
Net loss.....	(90,194,807)	(112,242,499)
Accretion on preferred stock.....	(1,300,000)	(2,183,424)
Net loss applicable to common shareholders.....	(91,494,807)	(114,425,923)
Basic and diluted loss per common share.....	(1.13 (1))	(1.41)

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(1) Basic and diluted loss per common share as previously reported has been restated for a 1.25 for one stock split.

#### REVENUES

Total revenues for the year ended December 31, 1998 were \$35.2 million. Since commencement of operations in April 1998, essentially all revenues consisted of airline ticket sales, hotel room reservations and related adaptive marketing programs. Approximately \$4.0 million of total revenues were attributable to adaptive marketing programs, all of which were attributable to priceline.com's third-party credit card marketing program with Capital One Bank. See "-- Cost of Revenues and Gross Profit (Loss)." Priceline.com's automobile sales service, which was launched on a test basis in the New York metropolitan area in July 1998, did not contribute materially to revenues during the period.

#### COST OF REVENUES AND GROSS PROFIT (LOSS)

Cost of revenues for the year ended December 31, 1998 totaled \$36.5 million, consisting of product costs of \$33.5 million and supplier warrant costs of \$3.0 million. Product costs represent the cost of airline tickets from priceline.com's suppliers, net of the federal air transportation tax, segment fees and passenger facility charges imposed in connection with the sale of airline tickets. Supplier warrant costs represent a non-cash expense related to the pro-rata amount of the Delta warrant earned prior to December 31, 1998, the date on which the Delta warrant was amended. Priceline.com anticipates that it will recognize additional supplier warrant costs in the amount of \$1.6 million in each of 1999 and 2000 in connection with additional warrants issued to a participating airline in January 1999.

Gross profit (loss), which is comprised of revenues less cost of revenues, was \$(1.3) million for the year ended December 31, 1998. Excluding the effect of the non-cash supplier warrant costs, priceline.com

would have had gross profit of \$1.7 million for the year ended December 31, 1998. Priceline.com is able to manage the level of gross margins by controlling the price at which it will cause offers to be fulfilled. Priceline.com has chosen to sell a substantial number of tickets below its cost in order to increase airline and adaptive marketing revenues, build a record of successful transactions, and enhance the priceline.com brand. Because the fees generated by adaptive marketing programs had no separate costs, adaptive marketing revenues had a disproportionately positive impact on priceline.com's total gross margin. The Capital One adaptive marketing program accounted for all of priceline.com's adaptive marketing revenues in 1998. Priceline.com expects that, in the future, a substantial portion of its gross profit may be attributable to adaptive marketing programs. As priceline.com matures, it expects to reduce the percentage of airline tickets sold below cost and continue to improve total gross margins.

The Capital One adaptive marketing program accounted for all of priceline.com's adaptive marketing revenues in 1998. On March 3, 1999, Capital One exercised its contractual option to cease accepting credit card applications through priceline.com effective May 1, 1999 unless priceline.com enters into a new agreement with Capital One on revised terms that Capital One has offered priceline.com. Priceline.com has entered into an agreement in principle with First USA Bank to establish a credit card adaptive marketing program that would replace the existing Capital One program. See "Risk Factors -- We are Dependent on Adaptive Marketing Programs." Capital One currently pays a fee for each qualifying credit card application submitted over the priceline.com service. The fee structure of the First USA program is based on different factors and may or may not result in revenues comparable to those under the Capital One program. If priceline.com fails to secure a new adaptive marketing program with First USA or another credit card issuer, its revenues and gross margin are likely to decrease significantly, which could materially and adversely affect its business and prospects.

#### OPERATING EXPENSES

**SUPPLIER START-UP WARRANT COSTS.** Supplier start up warrant costs for the year ended December 31, 1998 totaled \$58.0 million, or 164.5% of revenues. Supplier start up warrant costs consist of a non-cash charge representing the fair value of warrants issued to certain of our participating airlines in connection with securing the Company's relationship with those airlines.

**SALES AND MARKETING.** Sales and marketing expenses for the year ended December 31, 1998 totaled \$24.4 million, or 69.2% of revenues. Approximately 50% of sales and marketing expenses were comprised of radio and newspaper advertising expenses. The balance was comprised of (1) fees payable to a third party service provider, which operates priceline.com's call center, (2) credit card processing fees, (3) provisions for customer credit card charge-backs (based upon a percentage reflecting priceline.com's historical experience), and (4) compensation for priceline.com's sales and marketing personnel.

**SYSTEMS AND BUSINESS DEVELOPMENT.** Systems and business development expenses for the year ended December 31, 1998 totaled \$11.1 million, or 31.6% of revenues. Systems and business development expenses are comprised primarily of compensation to priceline.com's information technology and product development staff and payments to outside contractors, data communications and other expenses associated with operating priceline.com's Web site and, to a lesser extent, depreciation on computer hardware and licensing fees for computer software.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses for the year ended December 31, 1998 totaled \$18.0 million or 51.1% of revenues. General and administrative expenses consist primarily of compensation for personnel, fees for outside professionals, telecommunications and other overhead costs, including occupancy expense. Also included is a one-time non-cash charge of \$6.5 million relating to the issuance to Mr. Richard S. Braddock of a profits interest with respect to 6.5 million units in priceline.com's predecessor, priceline.com LLC. These units were granted to Mr. Braddock in connection with his employment by priceline.com, and were subsequently converted into 8,125,000 shares of common stock.

INTEREST INCOME (EXPENSE), NET

Interest income (expense), net for the year ended December 31, 1998 totaled \$548,374, reflecting approximately \$633,000 of interest income earned by priceline.com on its cash balances, net of interest expense for the period.

PERIOD ENDED DECEMBER 31, 1997

During the period from its formation in July 1997 through December 31, 1997, priceline.com was engaged in start-up activities and incurred \$2.5 million of operating expenses. These operating expenses primarily consisted of investments in technology and personnel related expenses. No revenues were earned during the period. As of December 31, 1997, priceline.com had a cumulative net loss of \$2.5 million.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth, for the periods presented, data regarding priceline.com's revenues, cost of revenues and gross profit (loss). Such data has been derived from priceline.com's unaudited combined financial statements which, in the opinion of priceline.com's management, have been prepared on substantially the same basis as the audited combined financial statements, subject to normal year end adjustments. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

	QUARTER ENDED			
	MARCH 31, 1998	JUNE 30, 1998	SEPTEMBER 30, 1998	DECEMBER 31, 1998
Revenues.....	--	\$ 7,030,913	\$ 9,212,820	\$ 18,993,127
Cost of revenues:				
Product costs.....	--	7,951,584	8,842,313	16,701,848
Supplier warrant costs.....	--	-0-	-0-	3,029,014
Total cost of revenues.....	--	7,951,584	8,842,313	19,730,862
Gross profit (loss).....	--	(920,671)	370,507	(737,735)
Gross margin.....	--	(13.1)%	4.0%	(3.9)%

Revenues increased in each quarter since the commencement of operations in April 1998. The increase in each quarter is due primarily to an increase in airline ticket sales resulting from expanded inventory, improved fill rates and an expanded customer base due to increased market awareness and acceptance of the priceline.com service. In addition to the foregoing, the increase in revenue in the fourth quarter of 1998 is due to the addition of a significant new airline partner and the inclusion for a full quarter of priceline.com's principal adaptive marketing program, as well as, to a lesser extent, the introduction of priceline.com's hotel reservation service in October 1998.

Cost of revenues, which consist of product costs and supplier warrant costs, increased each quarter of 1998. Product costs, which are primarily associated with the amounts paid to priceline.com's airline partners for airline tickets, net of federal air transportation tax, segment fees and passenger facility charges imposed in connection with the sale of airline tickets, also increased each quarter of 1998 in conjunction with increases in total revenue. Supplier warrant costs consist of a non-cash expense related to the pro-rata amount of the Delta warrant earned prior to December 31, 1998, the date on which the Delta Warrant agreement was amended. Excluding the effect of the non-cash supplier warrant costs, priceline.com's gross profit would have increased every quarter from \$(920,671) for the quarter ended June 30, 1998 to \$370,507 for the quarter ended September 30, 1998 and to \$2.3 million for the quarter ended December 31, 1998. Excluding the effect of the non-cash supplier warrant costs, priceline.com's gross margin would have increased from (13.1)% during the quarter ended June 30, 1998 to 4.0% for the quarter ended September 30, 1998 and to 12.1% during the quarter ended December 31, 1998. The increase in gross margins

(excluding the effect of non-cash supplier warrant costs) during the fourth quarter resulted primarily from the contribution of adaptive marketing revenues which have no separate costs and, consequently, have a disproportionate impact on total gross margins. The Capital One adaptive marketing program, which accounted for substantially all of priceline.com's adaptive marketing revenues, was initiated in August 1998. While the Capital One program will cease to be effective May 1, 1999, priceline.com has entered into an agreement in principle with First USA Bank to replace Capital One in its adaptive marketing program. See "Risk Factors -- We are Dependent on Adaptive Marketing Programs."

Priceline.com's quarterly operating results will be affected by a variety of factors, many of which are outside its control. Factors that may affect priceline.com's quarterly operating results include:

- its ability to increase both consumers' and sellers' use of the priceline.com service;
- its ability to attract new sellers of products and services to participate in the priceline.com service;
- its ability to expand the products and services offered;
- its ability to increase gross margins on products and services sold while still increasing sales;
- its ability to successfully implement the First USA adaptive marketing program;
- the fulfillment rate of customers' offers;
- the results of its adaptive marketing programs;
- the announcement or introduction of new sites, services and products by its competitors;
- the success of its brand building and marketing campaigns;
- price competition in the sale of products and services offered over the priceline.com system;
- its ability to upgrade and develop its systems and infrastructure to accommodate growth;
- its ability to attract new personnel in a timely and effective manner;
- the occurrence of technical difficulties or service interruptions;
- the amount and timing of operating costs and capital expenditures relating to expansion of its business, operations and infrastructure;
- changes in governmental regulation by federal or local governments; and
- general economic conditions and economic conditions specific to the Internet and online commerce industries, as well as the individual industries, for the products and services sold through the priceline.com system.

As a result of priceline.com's limited operating history and the emerging nature of the market for online commerce, it is difficult for priceline.com to forecast its revenues or earnings accurately. In addition, priceline.com has no backlog, with virtually all of its revenues for a particular quarter being derived from offers that are made and accepted during that quarter. Priceline.com's current and future expense levels are based largely on its investment plans and estimates of future revenues and are, to a large extent, fixed. Priceline.com may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to priceline.com's planned expenditures would have an immediate adverse effect on its business, results of operations and financial condition.

Priceline.com's limited operating history and rapid growth makes it difficult for it to assess the impact of seasonal factors on its business. Nevertheless, priceline.com expects its business to be subject to seasonal fluctuations, reflecting a combination of seasonality trends for the products and services offered by the

priceline.com service and seasonality patterns affecting Internet use. For example, with regard to priceline.com's travel products, demand for leisure travel may increase over summer vacations and holiday periods, while Internet usage may decline during the summer months. Priceline.com's results also may be affected by seasonal fluctuations in the inventory made available to the priceline.com service by participating sellers. Airlines, for example, typically enjoy high demand for tickets through traditional distribution channels for travel during Thanksgiving and the year-end holiday period. As a result, during those periods, airlines may have less excess inventory to offer through priceline.com at discounted prices. Priceline.com's business also may be subject to cyclical variations for the products and services offered; for example, leisure travel and home mortgage financing tends to decrease in economic downturns.

Due to the foregoing factors, priceline.com's quarterly revenues and operating results are difficult to forecast. Priceline.com believes that period-to-period comparisons of its operating results may not be meaningful and should not be relied upon as an indication of future performance. In addition, it is possible that in one or more future quarters priceline.com's operating results will fall below the expectations of securities analysts and investors. In such event, the trading price of the common stock would almost certainly be materially adversely affected.

#### LIQUIDITY AND CAPITAL RESOURCES

Since its inception, priceline.com has financed its operations primarily through the sale of equity securities. Net proceeds from financing activities since inception through December 31, 1998 totaled approximately \$103.2 million. Priceline.com's initial equity capital of approximately \$27.0 million was provided by Mr. Jay S. Walker, other high net worth individuals and a partnership affiliated with General Atlantic Partners, LLC, a private equity firm that invests worldwide in software and information technology companies. An additional \$20.0 million was invested by two partnerships affiliated with General Atlantic in July 1998. On December 8, 1998, priceline.com received approximately \$54.4 million in proceeds from the sale of equity securities in a private offering to a group of corporate and institutional investors and high net worth individuals, including two partnerships affiliated with General Atlantic; Vulcan Ventures, Incorporated; Liberty PL, Inc.; a wholly owned subsidiary of Liberty Media Corporation; Quantum Industrial Partners LDC, a fund managed by Soros Fund Management, LLC and Allen & Company, Incorporated. Allen & Company, Incorporated also has served as priceline.com's financial advisor. At December 31, 1998, priceline.com's principal source of liquidity was approximately \$53.6 million in cash and cash equivalents.

In April 1998, priceline.com received proceeds from a loan of \$1.0 million for working capital from a high net worth individual who also was issued a warrant to purchase 62,500 shares of common stock at an exercise price of \$0.80 per share. This loan expires on April 15, 2003 and bears interest at a rate of 6.0%. The related warrant has been fully exercised.

Prior to completion of this offering, priceline.com intends to make a loan to Mr. Richard S. Braddock in an amount sufficient to enable the payment of taxes related to the issuance to Mr. Braddock of 8,125,000 shares of common stock. The loan will bear interest at the applicable federal rate specified from time to time by the Internal Revenue Service. Principal and interest on the loan will be payable in January 2004.

Net cash used in operating activities was \$40.9 million for the year ended December 31, 1998. Net cash used in operating activities was primarily attributable to net losses.

Net cash used in investing activities was \$6.6 million for the year ended December 31, 1998. Net cash used in investing activities was primarily related to purchases of property and equipment.

Net cash provided by financing activities was \$101.1 million for the year ended December 31, 1998. Net cash provided by financing activities resulted primarily from the issuance of equity securities referred to above.

Priceline.com had no material commitments for capital expenditures at December 31, 1998 but expects such expenditures to be at least \$10.0 million in 1999. Such expenditures will be primarily for computer equipment, leasehold improvements related to newly leased space and other property and equipment. Priceline.com believes that, based upon its current operating plan, its existing cash and cash equivalents, the net proceeds from this offering and any cash generated from operations will be sufficient to fund its operating activities, capital expenditures and other obligations through at least the next three years. However, if during that period or thereafter priceline.com is not successful in generating sufficient cash flow from operations or in raising additional capital when required in sufficient amounts and on terms acceptable to priceline.com, these failures could have a material adverse effect on priceline.com's business, results of operations and financial condition. If additional funds are raised through the issuance of equity securities, the percentage ownership of its then-current stockholders would be diluted.

#### MARKET-RELATED RISKS

Priceline.com currently has no floating rate indebtedness, holds no derivative instruments and does not earn significant foreign-sourced income. Accordingly, changes in interest rates or currency exchange rates do not generally have a direct effect on priceline.com's financial position. However, changes in currency exchange rates may affect the cost of international airline tickets and international hotel reservations offered through the priceline.com service, and so indirectly affect consumer demand for such products and priceline.com's revenue. In addition, to the extent that changes in interest rates and currency exchange rates affect general economic conditions, priceline.com would also be affected by such changes.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" was released. The statement requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the planned use of the derivative and the resulting designation. Priceline.com is required to implement the statement in the first quarter of fiscal 2000. Priceline.com has not used derivative instruments and believes the impact of adoption of this statement will not have significant effect on its financial statements.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for Costs of Computer Software developed or obtained for internal use. This statement is effective for fiscal years beginning after December 15, 1998. This statement provides guidance on accounting for the cost of computer software developed or obtained for internal use. Priceline.com adopted this statement on January 1, 1999 and currently is in the process of evaluating its impact.

#### TAX MATTERS

##### NET OPERATING LOSS CARRYFORWARDS

Through July 31, 1998, priceline.com operated as a limited liability company, and income taxes (benefits) accrued to its members. During the year ended December 31, 1998, priceline.com had a net loss, and since converting from a limited liability company to a corporation in July 1998, it has incurred a tax net operating loss of \$9.3 million. Priceline.com's initial corporate tax return will be for the period August 1 through December 31, 1998. Priceline.com has provided a full valuation allowance on the deferred tax asset of \$38.0 million because of the uncertainty regarding its realization. Priceline.com's accounting for deferred taxes under Statement of Financial Accounting Standards No. 109 involves the evaluation of a number of factors concerning the realizability of its deferred tax assets. In concluding that a full valuation allowance was required, management primarily considered such factors as priceline.com's history of losses from operations and expected future losses. See Notes 2 and 8 of Notes to Combined Financial Statements included elsewhere in this prospectus.



## FEDERAL AIR TRANSPORTATION TAX ON AIRLINE TICKET SALES

Currently, a federal air transportation tax is imposed upon the sale of airline tickets and generally is collected by the airlines selling the tickets. The tax is based upon a percentage of the cost of transportation, which was 9% for periods prior to October 1, 1998 and 8% thereafter. Because of the unique pricing structures employed in the priceline.com service, such as the amount paid by the customer for a ticket being different than the amount charged by the airline for the same ticket with the excess payment, if any, going to priceline.com as a charge for the use of its proprietary business method, it is not clear how this federal tax should be calculated when sales occur using the priceline.com service. Priceline.com has been calculating this tax based on the fare paid to the airline for a ticket, rather than the price paid by the customer. There is a possibility that current law requires computation of the tax based on the price paid by the customer to priceline.com. Due to the uncertainty of how the federal air transportation tax applies to sales of airline tickets using the priceline.com service, priceline.com has submitted a written request to the United States Internal Revenue Service seeking a determination of priceline.com's federal air transportation tax obligations. Such determination may not be favorable and may require priceline.com to collect federal air transportation tax on the total amount paid by consumers for air travel.

If the determination of the Internal Revenue Service is unfavorable, priceline.com could owe \$111,000 in additional taxes. Priceline.com has accrued for such potential liability in its combined balance sheet as of December 31, 1998 and is providing for such potential liability on an ongoing basis. Priceline.com has agreed to indemnify and hold harmless certain of our participating airlines from any liability with respect to such taxes as well as to secure the payment of such taxes by a letter of credit.

## NON-QUALIFIED STOCK OPTIONS

Priceline.com currently has outstanding 23,689,438 non-qualified stock options issued to various employees, consultants and directors pursuant to the 1997 Omnibus Plan. Each option entitles its holder to purchase a share of common stock at a weighted average exercise price of approximately \$1.25 per share, subject to adjustment in accordance with the 1997 Omnibus Plan. On exercise of an option, priceline.com will be entitled to an income tax deduction equal to the difference between the exercise price of the option and the then fair market value of the common stock. As the exercise of options is in the sole discretion of the holder of the options, the timing of the corresponding income tax deduction is outside the control of priceline.com.

## YEAR 2000 READINESS DISCLOSURE

### PRICELINE.COM'S STATE OF READINESS

Priceline.com has defined Year 2000 compliance as follows:

Information technology time and date data processes, including, but not limited to, calculating, comparing and sequencing data from, into and between the 20th and 21st centuries contained in our products and services offered through the priceline.com service, will function accurately, continuously and without degradation in performance and without requiring intervention or modification in any manner that will or could adversely affect the performance of such products or the delivery of such services as applicable at any time hereafter.

Priceline.com's internal systems include both its information technology systems and non-information technology systems. Priceline.com has initiated an assessment of its proprietary information technology systems, and expects to complete any remediation and testing of all information technology systems during 1999. With respect to information technology systems provided by third-party vendors, priceline.com has sought assurances from such vendors that their technology is Year 2000 compliant. All of priceline.com's material information technology system vendors have replied to inquiry letters sent by priceline.com stating that they either are Year 2000 compliant or expect to be so in a timely manner.

Priceline.com is evaluating its non-information technology systems for Year 2000 compliance. It has not, to date, discovered any material Year 2000 issues with respect to its non-information technology systems.

Priceline.com is in the process of contacting its material seller participants whose products or services are sold through the priceline.com service to determine if they are Year 2000 compliant. To date, all such seller participants have stated that they are, or expect to be, Year 2000 compliant in a timely manner.

Priceline.com's customers are individual Internet users, and, therefore, priceline.com does not have any individual customers who are material to an evaluation of Year 2000 compliance issues.

#### THE COSTS TO ADDRESS YEAR 2000 ISSUES

Priceline.com has expensed amounts incurred in connection with Year 2000 compliance since its formation through December 31, 1998. Such amounts have not been material. The additional costs to make any other products or services Year 2000 compliant by mid-1999 will be expensed as incurred, but are not expected to be material.

Priceline.com is not currently aware of any material operational issues or costs associated with preparing its systems for the Year 2000. Nonetheless, it may experience material unexpected costs caused by undetected errors or defects in the technology used in its systems or because of the failure of a material seller participant to be Year 2000 compliant.

#### RISKS ASSOCIATED WITH YEAR 2000 ISSUES

Notwithstanding priceline.com's Year 2000 compliance efforts, the failure of a material system or vendor, including a seller participant in the priceline.com service, or the Internet generally, to be Year 2000 compliant could harm the operation of the priceline.com service or prevent certain products and services being offered through the priceline.com service, or have other unforeseen, adverse consequences to the company.

Finally, priceline.com also is subject to external Year 2000-related failures or disruptions that might generally affect industry and commerce, such as utility or transportation company Year 2000 compliance failures and related service interruptions. Moreover, participating sellers in priceline.com services might experience substantial slow-downs in business if consumers avoid products and services such as air travel both before and after January 1, 2000 arising from concerns about reliability and safety because of the Year 2000 issue. All of these factors could have a material adverse effect on our business, financial condition and results of operations.

#### CONTINGENCY PLANS

Priceline.com has not yet developed a contingency plan to address situations that may result if it is unable to achieve Year 2000 compliance. The cost of developing and implementing such a plan, if necessary, could be material.

## OVERVIEW

Priceline.com has pioneered a unique new type of e-commerce known as a "demand collection system" that enables consumers to use the Internet to save money on a wide range of products and services while enabling sellers to generate incremental revenue. Using a simple and compelling consumer proposition--"name your price," priceline.com collects consumer demand, in the form of individual customer offers guaranteed by a credit card, for a particular product or service at a price set by the customer. Priceline.com then either communicates that demand directly to participating sellers or accesses participating sellers' private databases to determine whether it can fulfill the customer's offer on the basis of the pricing information and rules established by the sellers. Consumers agree to hold their offers open for a specified period of time and, once fulfilled, offers cannot be canceled. Priceline.com benefits consumers by enabling them to save money, while at the same time benefitting sellers by providing them with an effective revenue management tool capable of identifying and capturing incremental revenues. By requiring consumers to be flexible with respect to brands, sellers and product features, priceline.com enables sellers to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures.

Priceline.com commenced its service on April 6, 1998 with the sale of leisure airline tickets and, during the period from launch through December 31, 1998, collected guaranteed offers for approximately 1.9 million airline tickets, representing approximately \$400.0 million in total consumer demand, resulting in sales of approximately 134,900 airline tickets, representing approximately \$30.4 million in revenue. During the two month period from January 1, 1999 through February 28, 1999, priceline.com collected guaranteed offers for approximately 836,300 airline tickets, representing approximately \$170.0 million in total consumer demand. This demand resulted in sales of approximately 102,700 airline tickets, representing approximately \$21.1 million in revenue. The number of offers that priceline.com accepts is affected by a variety of factors, including the number of reasonable offers received and the level of available inventory. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview."

Priceline.com's services were expanded to include the sale of new automobiles, on a test basis, in July 1998, hotel room reservations in October 1998 and home mortgages from a third party mortgage lender in January 1999. Priceline.com intends to continue to leverage the priceline.com brand over the next two years by expanding its product offerings to include rental cars, cruises, time shares, vacation packages, insurance and other financial services and a limited number of retail products. Through the innovative use of "adaptive marketing programs," priceline.com also markets customer acquisition programs for third parties, which facilitate the completion of a higher percentage of successful transactions through the priceline.com service and generate significant fee income for the company.

Priceline.com offers products and services that are provided by participating sellers, many of whom are leaders in their industries. Eighteen domestic and international airlines currently participate in priceline.com's leisure airline ticket service, including Delta, Northwest, TWA, America West and leading international carriers. Participants in the priceline.com hotel reservation service include Marriott, Renaissance, Sheraton, Westin and several other nationally recognized hotel chains, as well as several important real estate investment trusts, including Meristar, Patriot and Starwood. Priceline.com does not publicly advertise the names of its seller participants in its airline and hotel programs. Priceline.com's mortgage service, which is offered through a joint marketing arrangement with LendingTree, an Internet-based mortgage service provider, includes a network of approximately 20 mortgage lending institutions.

Priceline.com earns revenues upon the completion of successful transactions through the priceline.com service and through adaptive marketing programs offered through the priceline.com service. The manner in which it earns revenues varies, however, depending on the product or service sold. With respect to airline and hotel reservation services, priceline.com determines whether to fulfill a customer's offer

based upon the available fares, rules and inventory that have been provided by participating sellers through their private data bases. Upon completion of a successful transaction, priceline.com earns the spread between the customer's named price and the fare or rate charged by the seller. With respect to priceline's automobile and mortgage services, a customer's offer is submitted directly to the participating sellers who determine whether to fulfill the offer. For these services, and for its adaptive marketing programs, priceline.com earns fees or other payments payable by the seller and/or the customer or by its adaptive marketing partner.

Priceline.com believes that the priceline.com service already has achieved significant consumer acceptance and widespread brand awareness. Based upon the results of an independent research study conducted for priceline.com, the company believes that as of September 1998, among adult Americans, the priceline.com "name your price" business proposition was the second most recognized e-commerce brand among the 13 leading brands included in the survey and one of the six most recognized Internet brands among the 25 leading brands included in the survey. Based on the study, priceline.com also believes that, after only five months of operation, 62.5 million (or 32%) of all adult Americans were aware of the priceline.com "name your price" proposition. Priceline.com's strong brand awareness has been achieved without any affiliation with an Internet portal company such as Yahoo! or Excite or a proprietary online service such as America Online. Beyond mere name recognition, priceline.com also believes that it enjoys high levels of consumer satisfaction among users of its service who provide powerful word-of-mouth endorsements. In addition, priceline.com has been featured in hundreds of news stories in national publications such as THE NEW YORK TIMES, THE WALL STREET JOURNAL and USA TODAY. The priceline.com service also has been awarded a four-star rating by YAHOO! INTERNET LIFE magazine as the "most creative way to get a good deal" on leisure airline tickets.

Priceline.com believes that priceline.com's unique business model can be applied to a broad range of products and services. Priceline.com believes that this broad applicability of its business model, its first mover advantage, the strength of the priceline.com brand, its network of seller participants, its proprietary software systems and its intellectual property strategies provide it with significant competitive advantages.

## INDUSTRY BACKGROUND

### THE GROWTH OF COMMERCE ON THE INTERNET

The Internet has emerged as a significant interactive medium for conducting business. International Data Corporation, a market research firm, estimates that the number of Internet users worldwide exceeded 97 million in 1998 and will grow to over 319 million by the end of 2002. International Data Corporation also estimates that annual worldwide commerce over the Internet will increase from approximately \$32.0 billion in 1998 to approximately \$425.0 billion by 2002. The factors driving this growth include the increasing number of personal computers in homes and offices, the decreasing cost of personal computers, technological innovations providing easier, faster and cheaper access to the Internet, the proliferation of content and services being provided on the Internet and the increasing use of the Internet by businesses and consumers as a medium for conducting business. The increasing use of the Internet as a commercial medium has been accompanied by a diversification in the type of commerce that is conducted on the Internet and a proliferation in the types of products and services available on the Internet.

The Internet possesses a number of unique and commercially powerful characteristics that differentiate it from traditional media: users communicate or access information without geographic or temporal limitations; users access dynamic and interactive content on a real-time basis; and users communicate and interact instantaneously with a single individual or a group of individuals at little or no cost. The Internet has created a dynamic and particularly attractive medium for commerce, empowering consumers to gather more comparative purchasing data than is feasible with traditional commerce systems, to shop in ways that can be more convenient for them and to interact with sellers in many new ways. As the Internet has become more accessible and widely used for transactions, it has emerged as a primary business channel alongside the telephone, paper-based communication and face-to-face interaction.

Under traditional retail pricing methods, sellers typically market products to consumers under brand names at fixed retail prices. Alternatively, prices can be established through auction processes. However, each of these forms of seller-driven commerce has certain significant disadvantages for both sellers and consumers. For example, in the retail pricing model, sellers who discount prices to clear excess inventory, utilize excess capacity or increase sales velocity, risk disruption of their existing distribution channels and damage to their retail pricing structures. They also lose the opportunity to earn incremental revenue from "free-riders," that is, consumers who would have been prepared to pay the undiscounted price for the product or service, but nevertheless obtain the benefit of the discounted price. Moreover, none of these pricing methods allow sellers to consider the flexibility of potential buyers before setting prices. Similarly, consumers are often forced to pay a higher price when the seller is setting a fixed retail price for a product with added features or under a specific brand, which the customer would otherwise have been prepared to forgo for a lower price. Auctions force consumers to compete against each other for the benefit of the seller, which always results in the product being sold on the basis of the highest bid.

While the Internet has become a significant medium for conducting business, commerce presently conducted on the Internet is largely based upon traditional pricing methods. Priceline.com believes that the vast information sharing and communications power of the Internet creates an opportunity for significant change in the way commerce or business is conducted.

#### THE PRICELINE.COM SOLUTION

Priceline.com has developed a demand collection system that uses the information sharing and communications power of the Internet to create a new way of pricing products and services. Priceline.com creates a new balance between the interests of buyers, who are willing to accept trade-offs in order to save money, and sellers, who are prepared to generate incremental revenue by selling products at below retail prices, provided that they can do so without disrupting their existing distribution channels or retail pricing structures. Priceline.com's demand collection system allows consumers to name the price they are prepared to pay when submitting an offer for a particular product or service within a specified range of substitutability. Priceline.com then either communicates such offers to multiple sellers who determine whether to accept the customer's offer or accesses participating sellers' private databases to determine whether it can fulfill the customer's offer on the basis of the pricing information and rules established by the sellers. Consumers agree to hold their offers open for a specified period of time to enable priceline.com to fulfill their offers from inventory provided by participating sellers. Once fulfilled, offers generally cannot be canceled. This system uses the flexibility of buyers to enable sellers to accept a lower price in order to sell excess inventory or capacity or to increase sales velocity. Priceline.com believes that its demand collection system addresses the limitations inherent in traditional pricing mechanisms in a manner that offers substantial benefits to both buyers and sellers.

The principal advantages of the priceline.com system include the following:

- COST SAVINGS AND PREFERRED METHOD OF PURCHASING FOR CONSUMERS.  
Priceline.com's demand collection system allows consumers to save money in a simple and compelling way--"name your price." Buyers effectively trade off flexibility about brands, product features and/or sellers in return for prices that are lower than those that can be obtained at that time through traditional retail distribution channels. Priceline.com believes that in many cases, such as purchasing a new car or obtaining a home mortgage, naming your own price over the Internet represents a preferred purchasing method to traditional retail channels, which may involve comparison shopping among a complex array of alternative features, sometimes protracted negotiations and dealings with numerous brokers or sales representatives. Priceline.com also believes that naming your price over the Internet is a preferred purchasing method to auctions, which result in a product being sold on the basis of the highest bid.

- INCREMENTAL REVENUE FOR SELLERS. Sellers use priceline.com as a revenue management tool to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures. Priceline.com requires consumers to be flexible with respect to brands, such as a willingness to fly on any major airline; and/or product features, such as a willingness to fly at any time of the day; and/or seller, such as any BMW dealer in a specific geographic area. As a result, sellers' brands are not revealed to customers prior to the consummation of a transaction, thereby protecting their brand integrity. This shielding of brand identity enables sellers to accept offers at discounted prices through priceline.com without cannibalizing their own retail sales by publicly announcing discount prices and without competing against their own distributors. In effect, priceline.com serves as a discreet and insulated channel of distribution. Sellers are further protected by the fact that each transaction is independent and the prices at which offers are accepted are not revealed to subsequent users of the priceline.com service. Priceline.com gives sellers the ability to exercise a greater degree of pricing flexibility without trading high-margin sales for low-margin sales, thereby enabling sellers to expand their total revenues and, in some cases, gain market share at the expense of non-participating competitors.
- PROPRIETARY SELLER NETWORKS. Priceline.com assembles proprietary networks of industry leading sellers that represent high quality brands, such as Delta, Northwest, TWA, America West, Marriott, Renaissance, Sheraton and Westin. By establishing attractive networks of seller participants with reputations for quality, scale and national presence, priceline.com fosters increased participation by both buyers and sellers. Each participant in these unique seller networks is willing to consider and accept consumer offers at prices that are below its retail prices. Moreover, by shielding the seller's brand and not revealing the final selling price to other consumers, priceline.com encourages participating sellers to be aggressive in their pricing. Priceline.com believes that as more and more sellers in an industry join the priceline.com service, other industry participants will want to join the system.
- GUARANTEED CONSUMER DEMAND FOR SELLERS. Each customer who makes an offer through priceline.com must guarantee his offer with a major credit card. The guaranteed aspect of the demand is attractive to sellers because they know that priceline.com offers them a confirmed sale whenever they accept a buyer's offer. Sellers can be sure that collected demand represents willing buyers, at each named price, rather than browsing shoppers who have made no commitment to purchase. Priceline.com's database of consumer offers also provides sellers with valuable market information about the precise quantities of latent demand at each price point below their retail prices.
- BROAD APPLICATIONS ACROSS MULTIPLE MARKETS. In contrast to many e-commerce companies that are building brands in vertical categories or groups of related categories, priceline.com believes that its e-commerce business model has horizontal application to products and services in a wide range of industries. Priceline.com further believes that the broad applicability of the priceline.com service and the strength of the priceline.com brand afford it the opportunity to obtain substantial economies of scale and offer the potential for priceline.com to become a major new channel of distribution. The breadth of potential applications of the priceline.com business model also is enhanced by various cross-selling opportunities, since priceline.com expects that consumers who successfully complete transactions through priceline.com will return to priceline.com to purchase other products and services.

Priceline.com's objective is to continue to expand the priceline.com business and to establish priceline.com's demand collection system as a leading source for the purchase of products and services on the Internet. The key elements of priceline.com's strategy are as follows:

- STRENGTHEN THE PRICELINE.COM BRAND. Priceline.com intends to establish priceline.com as the leading consumer brand for buyer-driven commerce over the Internet. To achieve this objective, priceline.com intends to continue to pursue an aggressive brand development strategy through mass market and targeted advertising and promotions, press coverage and strong word-of-mouth support. While priceline.com believes it is already one of the most recognized e-commerce brands among adult Americans, priceline.com believes that it can expand the public's association with the priceline.com "name your price" proposition to a broad range of products and services.
- LEVERAGE THE PRICELINE.COM BRAND OVER NUMEROUS PRODUCTS AND SERVICES. Priceline.com intends to leverage the priceline.com brand across numerous products and services to achieve significant revenue scale and growth. In contrast to most e-commerce businesses that operate in one or two "vertical" markets, priceline.com is a "horizontal" commerce system that can benefit both buyers and sellers in a broad range of industries. Priceline.com's strategy is to make available multiple product and service offerings at a single Web site under a common brand to take advantage of these market opportunities. Over the next two years, priceline.com intends to offer products and services in four sectors of the economy where its demand collection system is particularly well suited. These sectors are:
  - travel, including leisure airline tickets and hotel rooms, rental cars, "all-inclusives" resorts, cruises and time shares;
  - financial services, including home mortgages, credit card balance consolidation and automobile and life insurance;
  - automobile sales and related financing; and
  - retail products, including computers, home electronics and other consumer products.

In these sectors, the priceline.com service currently offers leisure airline tickets, hotel rooms, home mortgages and, on a test basis, automobiles. Given the size and scope of these markets, priceline.com believes it can achieve a large revenue base and sustain revenue growth by capturing even a small portion of the excess unsold inventory or capacity in these sectors and by capturing even relatively small amounts of market share from traditional seller-driven channels of retail distribution.

- EXPAND SELLER PARTICIPANT NETWORKS. Priceline.com intends to continue to expand its alliances with major seller participants selected for reputation, quality and national presence to create proprietary seller networks for each of its major products and services. A critical element of the priceline.com business has been priceline.com's ability to demonstrate to its seller participants that priceline.com can generate incremental revenues for sellers without disrupting their existing distribution channels or retail pricing structures. Priceline.com intends to form and maintain alliances with industry leaders by designing its products and services in a way that requires consumers to accept some trade-offs from currently available retail product offerings in return for lower prices. Such trade-offs typically include not knowing the identity of the seller or brand prior to the acceptance of a customer's offer by a seller.
- ENHANCE SITE FUNCTIONALITY AND INCREASE CONSUMER USAGE. Priceline.com intends to frequently update and enhance the features of the priceline.com service. Priceline.com continually monitors feedback from consumers and frequently adds new features to further refine and simplify the buying process. Priceline.com also receives offers and provides customer service by telephone to

assist consumers in the offer process. By continuing to increase the functionality of the service and enhance the consumer experience, priceline.com believes that it will continue to increase customer usage and loyalty.

- EXPAND ADAPTIVE MARKETING PROGRAMS. Priceline.com intends to further develop and expand what it refers to as "adaptive marketing programs." Adaptive marketing programs include two distinct initiatives. "Adaptive promotions" allow consumers to increase the amount of their offers, and thus their likelihood of success, at no additional cost by participating in sponsor promotions during the process of making a priceline.com offer. For example, a customer making an offer to buy an airline ticket can increase the amount of his offer by a stated amount by applying online for a credit card issued by one of priceline.com's strategic sponsors. These promotions have the effect of increasing the percentage of successful offers at no additional cost to the customer, while at the same time enabling priceline.com to earn significant fee income, which it can use to offset the sale of products and services below its unit cost. The second type of adaptive marketing program is referred to as "adaptive cross selling" and utilizes cross selling of multiple products to increase the number of successful transactions.
- INCREASE FINANCIAL RETURNS OVER TIME. While it is inherent in the nature of priceline.com's business model that not all offers will be acceptable to sellers, an integral part of priceline.com's strategy is to ensure that a high percentage of reasonable offers get accepted, thereby increasing financial returns while reinforcing the priceline.com service. As consumers have become more familiar with the service, priceline.com has been able to increase the percentage of offers it satisfies and expects this trend to continue. As its revenue base grows, priceline.com intends to increase its financial returns over time. Priceline.com's revenue model for travel services enables it to balance revenue growth against gross profit margins, thereby enhancing its ability to manage a targeted gross margin as a percentage of revenues. Priceline.com initially intends to emphasize revenue growth over profit margins in order to achieve significant revenue scale and to further strengthen the priceline.com brand. However, over time, as its revenue base increases, priceline.com believes it will be able to capture a greater portion of the incremental profit that it generates for participating sellers and thereby increase its profit margins and financial returns.
- EXPLORE INTERNATIONAL EXPANSION. Priceline.com believes that the international scope of the Internet and the global demand for the types of products and services that it intends to make available through priceline.com presents opportunities to expand its service internationally. Given the anticipated continued increase in use of the Internet throughout the world, priceline.com intends to explore avenues and strategies for international expansion. It believes that joint ventures and licensing arrangements with international partners are likely to be the preferred methods of international expansion, as they will enable priceline.com to combine its expertise in demand collection systems with its partners' expertise in their local markets.

#### THE PRICELINE.COM BUSINESS MODEL

Priceline.com believes that its demand collection system is a powerful new business model for conducting commerce on the Internet. The priceline.com business model is designed to allow consumers to save money on a wide range of products and services by trading flexibility regarding brands, product features and/or sellers in return for being able to buy products and services at prices that are lower than those charged through traditional retail channels of distribution. The priceline.com business model motivates sellers to offer products through priceline.com at below their retail prices by enabling them to generate incremental revenue while protecting their existing channels of distribution and retail pricing structures.

The priceline.com business model enables the company to earn substantial revenues without charging customers for submitting offers through, or charging sellers for participating in, the priceline.com system. Priceline.com has the flexibility to earn fixed or percentage based fees by serving as an intermediary on the



sale of products or services, or to earn the spread between the customer's offer and the cost of a product or service by serving as principal in a transaction. Consumer fees are payable only upon completion of successful transactions. This unique revenue structure enables priceline.com to manage the level of gross margins and, as appropriate, balance revenue growth with margin growth.

In addition to its unique revenue structure, the defining elements of the priceline.com business model are the following:

- the buyer specifies or accepts a RANGE OF SUBSTITUTABILITY among brands, product features and/or sellers; for example, he agrees to stay at any three-star hotel in a certain area, agrees to fly at any time of the day or agrees to purchase a new car from any factory-authorized dealer;
- the buyer NAMES THE PRICE he is prepared to pay for the products or services within the specified range of substitutability;
- the buyer GUARANTEES HIS OFFER for a specified time period by securing all or a portion of his potential payment for the product or service with a major credit card;
- companies sell products or services at prices below their currently available retail prices using priceline.com as a BRAND SHIELD to protect their retail pricing structures and channels of distribution;
- each guaranteed offer can be consummated with products or services from any of a GROUP OF SELLERS; and
- offers made through priceline.com are held open for a specified period of time, and CANNOT BE CANCELED by either the seller or the buyer.

The priceline.com consumer proposition is simple and compelling: realize immediate savings by using the Internet to name your own price when you are willing to be flexible about brands, product features and/or sellers. A central premise of the priceline.com consumer proposition is that in many product and service categories there are a significant number of consumers for whom brands, product features or sellers are interchangeable, particularly if agreeing to a substitution among brands or sellers will result in saving money. For example, priceline.com believes that many leisure travelers are relatively indifferent about the brand of major airline they fly. Similarly many consumers are indifferent to which financial services company provides them with a credit card or home mortgage. Priceline.com also believes that many consumers prefer not to spend time and effort engaged in an evaluative process among similar products, brands or sellers, which they consider to be substitutable. Finally, priceline.com is appealing to some consumers because it does not charge a customer to submit an offer, and priceline.com's Web site provides convenient access, available 24 hours a day, seven days a week.

Priceline.com believes that the collection of large volumes of consumer demand is essential to building networks of multiple sellers. Priceline.com also believes that it is important that all of the demand it collects is GUARANTEED by the buyers, that offers must be held open for a specified time period and that once an offer is accepted it generally cannot be canceled or the purchase price refunded. This approach assures sellers that a customer's offer is bona fide and that once an offer is accepted, the seller will generate an immediate sale, rather than an invitation to further negotiation or comparison shopping.

The priceline.com business model is predicated on the assumption that sellers almost invariably have excess inventory or capacity that they would sell at lower prices, if they could do so without either lowering their prices to their retail customers or advertising that lower prices are available. Priceline.com allows sellers to capture demand below their retail "price line," without allowing retail customers who might be willing to pay more to "free ride" down to the lower price. The ability to offer prices below the retail price line generates incremental revenue by accessing buyer segments otherwise priced out of the market and, in certain cases, by capturing market share from nonparticipating competitors. Finally, priceline.com's database of consumer offers benefits sellers by providing them with valuable market information about the precise quantities of latent demand at each price point below their retail prices.

Priceline.com believes that its demand collection system is ideally suited to industries characterized by low variable costs relative to total cost, which results in high profit contribution margins and provides sellers with a strong incentive to sell products at prices below their retail prices to generate incremental sales, provided that they can do so without threatening their existing distribution channels or retail pricing structures. Low variable costs frequently exist in industries with expiring or rapidly aging inventory. Priceline.com also believes, however, that its demand collection system will prove to be effective even in industries that are not characterized by rapidly aging inventories and low variable costs because a significant number of consumers will prefer the relative cost savings, ease of use and convenience of priceline.com's name your price system to traditional retail distribution channels, and sellers will be attracted to the potential of the priceline.com service to increase sales velocity, which is often a significant factor in the success of businesses in these industries.

Priceline.com believes that markets characterized by a large degree of brand, product feature or seller substitutability are substantial and include both those in industries characterized by high profit contribution margins and industries in which many consumers are dissatisfied with traditional retail distribution methods. In the business-to-consumer market, travel, new car sales, financial services and many retail products offer substantial ranges of substitutability in consumers' minds. In the business-to-business market, long distance service, media sales and office supplies are subject to high degrees of product or brand substitutability. In the consumer-to-consumer market, there are often multiple sellers that are ready, willing and able to offer new or nearly new products that consumers consider substitutable. Priceline.com believes that its business model can be applied to each of these markets, thereby providing it with considerable potential for long term growth.

#### PRODUCTS AND SERVICES

Priceline.com launched the priceline.com service on April 6, 1998 with the sale of leisure airline tickets. Since that time, the priceline.com service has been expanded to include the sale of new automobiles, on a test basis, in July 1998, hotel room reservations in October 1998 and home mortgages from a third party mortgage lender in January 1999. Priceline.com also intends to expand its product offerings over the next two years to include other leisure travel products such as rental cars, cruises, time shares, and vacation packages; automobile and personal insurance and other financial services products; and certain retail products such as computers, home electronics and other consumer products.

#### TRAVEL SERVICES

LEISURE AIRLINE TICKETS. Priceline.com commenced its service with the sale of leisure airline tickets. The number of airlines participating in priceline.com's airline ticket service has increased substantially since the launch of the business, from an initial group of two domestic airlines and four international airlines, to a total of five domestic airlines and 13 international airlines. Priceline.com also purchases and resells a small percentage of its tickets from airline ticket consolidators. Airlines participate in priceline.com's airline ticket service by making available to priceline.com unpublished fares and, in some cases, dedicated or special inventory. Priceline.com does not publicly advertise the names of airlines participating in its airline ticket service.

Consumers can make offers to purchase airline tickets through the priceline.com Web site or the 1-800-Priceline call center. The vast majority of all airline ticket requests are made through priceline.com's Web site. To make an offer, the customer specifies (1) the origin and destination of the trip, (2) the dates on which he wishes to depart and return and (3) the price he is willing to pay, and guarantees the offer with a credit card. Consumers must agree to, among others, the following conditions:

- to fly on any major full-service airline, which is defined by the United States Department of Transportation;
- to leave at any time of the day on their desired dates of departure and return;

- to purchase only round trip economy class tickets between the same two points of departure and return;
- to accept up to one stop or connection;
- to receive no frequent flier miles or upgrades; and
- to accept tickets that cannot be refunded or changed.

Consumers are informed that they can increase their chances of obtaining the desired ticket by accepting greater flexibility, such as accepting flights outside of priceline.com's normal flight times or accepting more than one stop or connection. Consumers also are given the opportunity to have their offers increased by a specified dollar amount, and thereby increase the likelihood of success, if they agree to participate in an adaptive promotion during the process of submitting their offers, such as applying for a credit card or subscribing to a magazine. In order to encourage reasonable initial offers, consumers are not permitted to make revised offers for an identical itinerary within seven days of an unsuccessful offer.

When priceline.com receives an offer, it determines whether to fulfill the offer based upon the available fares, rules and inventory that have been provided by participating airlines. Such fares and rules are filed by participating airlines in a private database known as SecureRate within the Worldspan central reservation system. As a certified travel agency, priceline.com also has access to the published "tariff" fares of all airlines, including those not participating in the priceline.com service, although priceline.com currently does not sell tickets purchased pursuant to published tariff fares. If a qualifying airfare is identified, a search in Worldspan is initiated to find seat availability on the requested dates of travel. Where more than one seller is able to fulfill the customer's offer, priceline.com awards the business based on an allocation protocol.

A customer is notified whether his offer has been accepted within one hour for domestic flights and within twenty-four hours for international flights. If priceline.com is able to obtain an airline ticket within the parameters specified by the customer, the customer's credit card is charged for the amount of the customer's offer and the ticket is delivered to the customer by the delivery method specified by the customer. Approximately 90% of the tickets issued through priceline.com are electronic tickets for which there is no delivery charge. Priceline.com does not charge a fee to either the customer or the airline, but earns the spread, if any, between the customer's offered price and the cost to purchase the ticket from the airline.

**HOTELS.** In October 1998, priceline.com launched its second travel service, which allows consumers to name their price for hotel room reservations. Priceline.com's hotel reservation service currently is available in more than 200 cities, including over 30 metropolitan areas, which include Atlanta, Boston, Chicago, Los Angeles, New York, Orlando and San Francisco. Priceline.com intends to expand its hotel reservation service during 1999 to include substantially all major cities and metropolitan areas in the United States and various international destinations. Seller participants in the hotel reservation service include several of the most significant national hotel chains, including Marriott, Renaissance, Sheraton and Westin, as well as several important real estate investment trusts, including Meristar, Patriot and Starwood, and independent property owners. Hotels participate by filing private discounted rates with related inventory control rules in priceline.com's private database in the Worldspan centralized reservation system for hotel rooms. These rates generally are not available to the general public or to consolidators and other discount distributors who sell to the public.

Priceline.com's hotel reservation service operates in a manner similar to its airline ticket service. Consumers are required to accept certain trade-offs with respect to brands or product features in return for saving money. For example, consumers are required to accept a reservation in any hotel within a specified geographic area within a designated "class" of service (1, 2, 3, 4 or 5-star) and must accept limitations on changes and cancellations. Priceline.com determines the class of service for each participating hotel based upon published industry reports, the amenities available at each property and other factors

such as age and decor. As with the airline ticket service, the target market for priceline.com's hotel reservation service is the leisure travel market.

Consumers can make offers for a hotel reservation through the priceline.com Web site or 1-800-Priceline call center. To make an offer, the customer (1) specifies (a) his dates of stay, (b) the metropolitan area, including geographic zones within that metropolitan area, (c) the class of hotel service and (d) the price he is willing to pay; and (2) guarantees the offer with a credit card. Upon receipt of an offer for a hotel reservation, priceline.com systematically compares the offer with rates and inventory rules provided by sellers through their reservation systems and determines whether to fulfill the offer based upon available inventory. Within a specified time, which currently is one hour, the customer is notified whether his offer has been accepted. When selling a hotel reservation, priceline.com earns the spread between the consumer's offer price and the price charged to the company by the hotel. Priceline.com also earns fee income from adaptive promotions that it makes available to consumers during the course of submitting an offer for a hotel reservation.

The dynamics of the hotel industry are similar to those of the airline industry in that both industries are characterized by expiring inventory and low marginal costs so that the sale of any excess inventory provides a significant contribution to profits. As with the airline industry, a significant amount of available inventory in the hotel industry expires unsold. Priceline.com also believes that consumers are willing to trade off brand identity for lower rates with a specified class of hotel service and that such industry dynamics make priceline.com's demand collection system particularly well-suited to the hotel industry. Priceline.com also believes that the hotel reservation service will create opportunities for cross-selling to leisure travelers who purchase airline tickets through priceline.com.

OTHER TRAVEL SERVICES. Priceline.com intends to expand its products and services within the leisure travel industry over the next two years to encompass the rental car, cruise, all-inclusive resort, time share and vacation package segments.

#### FINANCIAL SERVICES PRODUCTS

HOME MORTGAGES. Priceline.com introduced its home mortgage service in January 1999. Priceline.com's mortgage service allows consumers to name their interest rate for mortgages of a specified term, including purchase money mortgages, refinancings and home equity loans. LendingTree, an Internet based mortgage service provider, is priceline.com's joint marketing partner in connection with its mortgage service. Under priceline.com's agreement with LendingTree, priceline.com is responsible for maintaining the mortgage service on the priceline.com Web site and for consumer marketing. LendingTree serves as the mortgage broker and operates the back-end processing system, which presents offers received through priceline.com to multiple mortgage lending institutions for consideration. LendingTree maintains its own online mortgage service, which includes a network of over 20 mortgage lending institutions. See "-- Strategic Alliances -- Marketing Agreement for Mortgage Services."

To obtain a home mortgage through the priceline.com service, consumers access the priceline.com Web site and specify the amount of the loan, the term and the interest rate they are willing to pay. Consumers complete a simplified loan application as part of the process of making an offer. In connection with making an offer, consumers are required to guarantee with a major credit card the payment of a fee of \$200, to be credited against closing costs if their offer is accepted. Priceline.com transmits each offer to LendingTree, which in turn presents the offer to multiple lenders who can either accept the offered terms, or return a counteroffer to the consumer. Priceline.com notifies the customer within 48 hours whether his offer has been accepted. Upon the closing of a mortgage placed through priceline.com's mortgage service, LendingTree receives a fee from the lending institution, and priceline.com receives a fee from LendingTree.

According to industry data published in 1998, approximately \$1.1 trillion of home mortgages were entered into in the United States in 1996. Priceline.com believes that consumers are largely indifferent to

which mortgage issuer provides their mortgage and seek merely to obtain the lowest cost in the most efficient manner. Moreover, comparison shopping among the hundreds of mortgage lenders can be a frustrating experience for consumers. Priceline.com believes the priceline.com mortgage service will provide consumers with a simple and efficient vehicle for obtaining the interest rate they seek through a preferable purchasing process. For lenders, the priceline.com mortgage service will provide guaranteed demand from consumers who are committed to buy and will submit that demand in a format that can be reviewed and evaluated by the lender with minimal variable costs.

**OTHER FINANCIAL SERVICES PRODUCTS.** Priceline.com intends to expand its products and services within the financial services industry over the next two years to include unsecured personal loans, credit card balance consolidations and automobile and life insurance policies. As with its other products and services, priceline.com intends to expand its financial product services by entering into strategic relationships with leading industry participants. Priceline.com believes its financial product services will have broad demographic appeal among consumers who seek to obtain the most attractive economic terms in the most efficient manner from what they perceive to be substitutable suppliers.

#### **NEW CAR SALES**

Priceline.com introduced a new car sales service on a test basis in the New York metropolitan area in July 1998. Priceline.com is using the New York market to learn more about the automobile sales over the Internet and to develop product features and systems support. In the first half of 1999, priceline.com intends to introduce its new car sales service in a prototype market, which presently is expected to be a city with a population of approximately one million. Once the service's product features have been refined and its performance expectations have been achieved in this prototype market, priceline.com expects to implement a gradual roll-out to additional metropolitan markets in the United States. Priceline.com's new car sales service currently does not offer automobile financing. Because a significant majority of new car buyers finance their purchase, priceline.com intends to add a financing feature to its program, for both leasing and lending, prior to a broader roll-out of the service, including a "budget worksheet" that will assist customers in determining what cars they can afford to purchase.

Priceline.com's new car sales service accepts offers for every major brand of automobile. To purchase a new car through the priceline.com service, consumers name the price for a new car with specified model options, and agrees to purchase such car from any factory authorized dealer within a specified geographic radius. To help consumers submit reasonable requests, both the manufacturer's suggested retail price and the dealer invoice price for the vehicles and options requested are displayed on the priceline.com Web site. Upon receiving an offer for a new car, priceline.com transmits the customer's offer to factory authorized dealers within the specified geographic radius, without disclosing the identity of the customer. Priceline.com directs the sale to the first dealer that notifies the company that it is willing to accept the customer's offer. Priceline.com then notifies the customer to pick up the vehicle from that dealer and the transaction is closed directly between them.

Due to the numerous features and options on a new automobile, the range of product substitutability that consumers will accept is lower in the case of new cars than with airline tickets or hotels. As a result, a dealer that may not be able to precisely fulfill a customer's offer is permitted to make a counteroffer through priceline.com. The counteroffer may specify a different product package or price. The customer is free to accept or reject such a counteroffer. The customer also is permitted to submit an additional offer through priceline.com.

Once an offer for a new car is accepted by a dealer, the consumer completes the transaction directly with the dealer and receives the same standard manufacturer's warranty and other terms that are available with respect to any new car purchased at that dealer. When a sale is completed, priceline.com is paid a fee, which is currently \$25, from the customer and an additional fee from the auto dealer. If the customer fails to consummate the transaction within 14 business days of being notified that an offer is accepted, the

customer is charged a cancellation fee, which is currently \$200, half of which is payable to priceline.com with the other half payable to the dealer.

Priceline.com believes that, for many consumers, purchasing an automobile through priceline.com's new car sales service will be a preferred purchasing method compared to traditional retail channels which often involve protracted negotiations with numerous dealers, some of which may utilize aggressive sales tactics. Priceline.com also believes that many automobile dealers will view the priceline.com service as an attractive way to generate incremental sales through a low cost distribution channel.

The priceline.com new car sales service is differentiated from other Internet car sales services, which serve as lead generators for participating car dealers. Under such services, multiple dealers may contact the customer in response to the customer's inquiry to the Internet service. By contrast, priceline.com's new car sales service does not reveal the identity of the customer to the auto dealer until the dealer has accepted the customer's offer. Furthermore, in contrast to other Internet car sales services, dealers are not required to pay a participation fee to review offers from the priceline.com service.

#### ADAPTIVE MARKETING PROGRAMS

Priceline.com has developed adaptive marketing programs to help bridge the gap between consumer offers and seller prices, provide users of the priceline.com service with other desired products, and generate additional revenue for the company. These programs also serve as an integral part of priceline.com's strategy of building customer loyalty.

Priceline.com intends to further develop and expand its adaptive marketing programs, which presently include two distinct initiatives. The first, which it refers to as "adaptive promotions," allows consumers to increase the amount of their offers, and thus their likelihood of success, at no additional cost by participating in sponsor promotions during the process of making a priceline.com offer. For example, a customer making an offer to buy an airline ticket can immediately increase the amount of his offer by \$50 by applying online for a credit card. If the customer obtains the requested ticket, he still pays only the amount contained in his original offer. For example, if a customer makes an offer to purchase a round trip ticket from New York to Chicago for \$200 and, in the process of submitting that offer, he applies for a credit card, the offer would be submitted at \$250, but the customer would have to pay only \$200 for the ticket.

The second type of adaptive marketing program is referred to as "adaptive cross selling" and utilizes cross selling of multiple products to increase the number of successful transactions. For example, a customer whose offer for an airline ticket was slightly below acceptable levels could be offered a second related product such as a hotel room reservation or a rental car day at a combined price that provided an acceptable margin for the sellers of both products and for priceline.com.

Priceline.com's principal adaptive promotion offers consumers the ability to apply for a credit card issued by Capital One Bank while submitting offers through priceline.com. In connection with this promotion, priceline.com is paid a fee by Capital One for each qualifying credit card application. Substantially all of priceline.com's adaptive marketing revenues to date have been derived from the Capital One promotion. Priceline.com has entered into an agreement in principle with First USA Bank, one of the nation's leading credit card issuers, under which First USA would replace Capital One as priceline.com's strategic partner in its credit card adaptive marketing program. Priceline.com also has a co-marketing agreement with E\*TRADE Group, Inc. to establish an adaptive marketing program under which E\*TRADE will compensate priceline.com for offering priceline.com customers the opportunity to open an account with E\*TRADE while visiting or making an offer on the priceline.com Web site. In addition, priceline.com has an adaptive marketing promotion for magazine subscriptions pursuant to a revenue sharing arrangement with NewSub Services, Inc. See "Risk Factors -- We are Dependent on Adaptive Marketing Programs" and "--Strategic Alliances -- Adaptive Marketing Alliances."

## MARKETING AND BRAND AWARENESS

Priceline.com has established itself as a leading e-commerce brand through an aggressive marketing and promotion campaign. From inception through December 31, 1998, priceline.com incurred \$24.4 million for sales and marketing expense. It intends to continue to pursue an aggressive marketing strategy designed to promote brand awareness and the concept that consumers can save money on a wide range of products and services through priceline.com. Underlying priceline.com's marketing strategy is the company's belief that its target market is all consumers, not just Internet-savvy consumers. Substantially all of such spending has been for radio and newspaper advertising. Priceline.com's campaign features the actor William Shatner as its spokesperson.

Priceline.com supplements its paid advertising and promotion with targeted media coverage. Priceline.com has been featured in hundreds of news stories in national publications such as THE NEW YORK TIMES, THE WALL STREET JOURNAL and USA TODAY, reflecting the intuitive appeal of the priceline.com business model and its strong word-of-mouth support. In addition, priceline.com engages in grass roots marketing such as promotional events on college campuses and co-promotions with popular media such as MTV.

Priceline.com believes that the priceline.com service has achieved widespread brand awareness. Based upon the results of an independent research study conducted for priceline.com, the company believes that, as of September 1998, among adult Americans, the priceline.com "name your price" business proposition was the second most recognized e-commerce brand among the 13 leading brands included in the survey and one of the six most recognized Internet brands among the 25 leading brands included in the survey. Based on the study, priceline.com also believes that, after only five months of operation, 62.5 million (or 32%) of all adult Americans were aware of the priceline.com "name your price" proposition. Priceline.com's strong brand awareness has been achieved without any affiliation with an Internet portal company such as Yahoo! or Excite or a proprietary online service such as America Online. Priceline.com also believes that it enjoys high levels of consumer satisfaction among users of its service who provide powerful word-of-mouth endorsements.

## STRATEGIC ALLIANCES

### AIRLINE ALLIANCES AND RELATIONSHIPS

Priceline.com has entered into Airline Participation Agreements with five domestic and 13 international airlines. The Airline Participation Agreements do not commit the airlines to provide tickets for any particular routes or at a discount to their retail prices, but outline the terms and conditions under which ticket inventory provided by the airlines may be sold. Such terms and conditions include the following:

- the tickets must be non-refundable, non-endorsable and non-changeable;
- all travel must be round-trip between the same two points of departure and return, with no stopovers permitted;
- the tickets are not eligible for frequent flyer mileage or upgrades;
- consumers must agree to accept up to one stop or connection on both their departing and return flights;
- consumers must be willing to fly on any participating airline;
- consumers must be willing to depart at any time after 6 a.m. and land any time before 10 p.m. on the requested dates;
- all offers must be guaranteed with a major credit card; and
- consumers are limited in their ability to make multiple offers with respect to the same travel itinerary.

The Airline Participation Agreements generally are subject to termination upon 30 days' notice by priceline.com or the airline. While priceline.com's agreement with Delta nominally has a ten-year term, the Agreement does not impose any material obligations on Delta. In particular, Delta is not at any time obligated to supply airline tickets to priceline.com and may supply airline tickets to priceline.com's competitors at any time, without offering any airline tickets to priceline.com, or may offer tickets to priceline.com's competitors at more favorable prices than those offered to priceline.com.

In addition to the Airline Participation Agreements, priceline.com entered into a related agreement with Delta which provides, among other things, certain incentives designed to encourage Delta to increase its participation in priceline.com's buying service. For example, Delta is entitled to share in revenue generated from airline ticket sales on Delta if priceline.com's gross margin on such sales exceeds approximately 12% in any calendar quarter. In addition, priceline.com is required to use the highest qualifying fare to fulfill ticket requests allocable to Delta, subject to an agreed minimum profit margin to priceline.com. The agreement also requires, subject to various exceptions, Delta's approval of the addition of new carriers to the priceline.com service and restricts both the volume of tickets that may be sold and the routes for which tickets may be offered by specified carriers through the priceline.com service. Delta also may require the exclusion of specific markets in order for certain other airlines to participate. Further, priceline.com is required to license its buyer-driven commerce system to Delta on a non-exclusive basis and on commercially reasonable terms under specified conditions. In addition, priceline.com's ability to transfer or license its intellectual property to other travel providers is limited in the manner set forth in the agreement.

In connection with the Airline Participation Agreement with Delta, priceline.com also issued a warrant to Delta to purchase up to 18,619,403 shares of common stock at an exercise price of approximately \$0.93 per share. The Delta warrant will become exercisable at the earlier of December 31, 2005, or, Delta's achievement of certain performance thresholds of ticket sales.

Priceline.com also has issued to several participating airlines warrants to purchase an aggregate of 2,187,500 shares of common stock, comprised of warrants to purchase 937,500 shares of common stock at an exercise price of \$3.20 per share and warrants to purchase 1,250,000 shares of common stock at an exercise price of \$6.40 per share. The warrants having an exercise price of \$3.20 per share become exercisable 210 days after the completion of this offering. With respect to the warrants having an exercise price of \$6.40 per share, warrants relating to one-half of the underlying shares become exercisable on December 31, 1999, and warrants relating to the remaining underlying shares become exercisable on December 31, 2000, subject to earlier termination of such warrants in the circumstances identified in the warrant agreement.

#### MARKETING AGREEMENT FOR MORTGAGE SERVICES

In connection with priceline.com's home mortgage service, priceline.com has entered into a joint marketing relationship with LendingTree, an Internet based mortgage service provider. Under this arrangement, priceline.com is responsible for maintaining the mortgage service for the priceline.com Web site and for consumer marketing. LendingTree provides the back-end processing system, which presents the priceline.com offers to multiple mortgage lending institutions for consideration.

Under the terms of the Internet Marketing and Licensing Agreement, effective as of August 1, 1998, between priceline.com and LendingTree, priceline.com receives the majority of the net revenue generated by the mortgage program, and the balance is earned by LendingTree. LendingTree is responsible for providing (1) the substantive mortgage content of the mortgage service for the priceline.com Web site; (2) a network of lenders to participate in the mortgage program; (3) customer service; and (4) the software required to effect a communication system between priceline.com, LendingTree and the participating lenders. LendingTree also is responsible for compliance with all regulations applicable to the mortgage service and products, including the maintenance of requisite broker licenses, registration, approvals and



exemptions. The initial term of the agreement began on August 1, 1998, expires one year from the commencement of the priceline.com mortgage service and renews automatically thereafter. The agreement may be terminated by either party after the initial term expires, or immediately in the event that the other party materially breaches the agreement or becomes subject to a bankruptcy proceeding.

#### HOTEL ALLIANCES

In connection with priceline.com's hotel service, priceline.com has entered into letter agreements with eight hotel chains. The agreements generally provide for the hotels to supply priceline.com with competitive net rates for hotel properties included in the priceline.com service. Hotels must be of 2-star quality or higher, with priceline.com to make the final quality determination. These letter agreements do not require the hotels to provide any minimum level of inventory. In most cases, the agreements are cancellable by either party at any time.

#### ADAPTIVE MARKETING ALLIANCES

Priceline.com's principal adaptive marketing promotion offers consumers the ability to apply for a credit card issued by Capital One while submitting offers through priceline.com. In connection with this promotion, priceline.com is paid a fee by Capital One for each qualifying credit card application. On March 3, 1999, Capital One exercised its contractual option to cease accepting credit card applications through priceline.com effective May 1, 1999 unless priceline.com enters into a new agreement with them on revised terms which they have offered to priceline.com. Priceline.com has entered into an agreement in principle with First USA Bank, a leading national credit card issuer, under which First USA would replace Capital One as priceline.com's strategic partner in its credit card adaptive marketing program. Under the First USA adaptive marketing program, priceline.com would enable its customers to increase the amount of their offers by a specified amount by applying online for a First USA credit card and would offer other promotions linked to the First USA customer acquisition program. Priceline.com would earn fees in a variety of ways including (1) upon the acceptance by First USA of credit card applications submitted through the priceline.com service, up to a specified maximum amount of five million credit card accounts, subject to adjustment under certain circumstances, (2) upon the activation of credit card accounts acquired for First USA through the priceline.com service and (3) for transfers of balances from other credit cards to First USA credit cards through the priceline.com service. The First USA agreement would have a term of five years, subject to certain termination and repricing provisions.

While priceline.com expects to enter into a definitive agreement with First USA, there can be no assurance that such an agreement will in fact be executed, or that the terms of any such agreement will be substantially the same as, or similar to, those contemplated in the agreement in principle. Moreover, priceline.com can give no assurance that a new adaptive marketing credit card program with First USA or any other credit card issuer will be established by the expiration of the Capital One program or that it will provide priceline.com with financial benefits comparable to those provided under the Capital One program. Capital One currently pays a fee for each qualifying credit card application submitted over the priceline.com service. The fee structure of the First USA program is based on the factors described above which may or may not result in revenues comparable to those under the Capital One program. If priceline.com fails to secure a new adaptive marketing program with First USA or another credit card issuer, its revenues and gross margin are likely to decrease significantly, which could materially and adversely affect its business and prospects.

Priceline.com also has a co-marketing agreement with E\*TRADE to establish an adaptive marketing program under which E\*TRADE will compensate priceline.com for offering priceline.com customers the opportunity to open an account with E\*TRADE while visiting or making an offer on the priceline.com Web site. As the first phase of this program, priceline.com and E\*TRADE have established the Customer Affinity Share Purchase Program under which customers of priceline.com who also are account holders at E\*TRADE will receive priority in the allocation by E\*TRADE of priceline.com shares in this offering,

subject to a maximum allocation of 100 shares per customer account and limited by the total number of shares made available to E\*TRADE. The parties intend to expand the adaptive marketing program to apply to offers by customers for products and services over the priceline.com service. However, under the terms of the co-marketing agreement, E\*TRADE will be permitted to terminate the expanded program at any time. Under the co-marketing agreement, E\*TRADE has agreed to pay priceline.com a daily fee, which increases in increments based on the number of funded account applications submitted to E\*TRADE by priceline.com customers. E\*TRADE also has agreed to pay priceline.com an additional fee in certain circumstances for each successful priceline.com transaction in which the customer participates in the E\*TRADE adaptive marketing program.

Priceline.com also offers an adaptive marketing promotion for magazine subscriptions pursuant to a revenue sharing agreement with NewSub Services, Inc., a magazine subscription agent that is an affiliate of priceline.com's Founder and Vice Chairman, Mr. Jay S. Walker. Under the agreement with NewSub Services, priceline.com shares in a percentage of the revenues generated upon the conversion of priceline.com generated subscriptions to annual subscriptions after a six month free trial period.

#### COMPETITION

Priceline.com competes with both online and traditional sellers of the products and services offered on priceline.com. The market for selling products and services over the Internet is new, rapidly evolving and intensely competitive. Current and new competitors can launch new sites at a relatively low cost. In addition, the traditional retail industry for the products and services priceline.com offers is intensely competitive.

Priceline.com currently or potentially competes with a variety of companies with respect to each product or service it offers. With respect to travel products, these competitors include:

- Internet travel agents such as Travelocity, Preview Travel and Microsoft's Expedia.com;
- traditional travel agencies;
- consolidators and wholesalers of airline tickets and other travel products;
- individual airlines, hotels, rental car companies, cruise operators and other travel service providers; and
- operators of travel industry reservation databases such as Worldspan and Sabre.

Priceline.com's current or potential competitors with respect to new automobiles include traditional and online auto dealers, including newly developing auto super stores such as Auto Nation, Auto-by-Tel and Microsoft's CarPoint. With respect to financial service products, priceline.com's competitors include:

- banks and other financial institutions;
- online and traditional mortgage and insurance brokers, including Quicken Mortgage, E-Loan and Home Shark; and
- insurance companies.

While priceline.com faces competition from all of these current or potential competitors, its business and financial position would be particularly at risk if the airlines chose to establish their own buyer-driven commerce system to sell excess inventory.

Priceline.com potentially faces competition from a number of large Internet companies and services that have expertise in developing online commerce and in facilitating Internet traffic, including America Online, Microsoft and Yahoo!, who could choose to compete with priceline.com either directly or indirectly through affiliations with other e-commerce companies. Other large companies with strong brand recognition, technical expertise and experience in Internet commerce could also seek to compete with

priceline.com. Competition from these and other sources could have a material adverse effect on priceline.com's business, results of operations and financial condition.

Priceline.com believes that the principal competitive factors in its markets are brand recognition, price, Web site accessibility, ability to fulfill offers, customer service, reliability of delivery, ease of use, and technical expertise and capabilities. Many of priceline.com's current and potential competitors, including Internet directories and search engines and large traditional retailers, have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, technical and other resources than priceline.com. Some of these competitors may be able to secure products and services on more favorable terms than priceline.com. In addition, many of these competitors may be able to devote significantly greater resources to:

- marketing and promotional campaigns;
- attracting traffic to their Web sites;
- attracting and retaining key employees; and
- Web site and systems development.

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

#### OPERATIONS AND TECHNOLOGY

Priceline.com's business is supported by a state of the art systems platform, which was designed with an emphasis on scalability, performance and reliability. Priceline.com's core demand collection and offer processing systems are proprietary to priceline.com. The software platform and architecture are built on server-side Java, C++, and ISO standard SQL scripts integrated with an Oracle relational database system. This internal platform was designed to include open application protocol interfaces that can provide real-time connectivity to vendors in the range of industries in which the priceline.com operates. These include large global inventory systems, such as airline and hotel reservation systems, for example, the Worldspan central reservation systems; and financial service providers; as well as individual inventory suppliers, such as auto dealers, individual hotels and hard goods merchants. Priceline.com's Internet servers utilize Verisign digital certificates to help it conduct secure communications and transactions.

Priceline.com out-sources most of its call center and customer service functions, and uses a real-time interactive voice response system with transfer capabilities to its call centers and customer service centers in Stamford, Connecticut; Columbus, Ohio; and Charlotte, North Carolina.

Priceline.com's systems infrastructure, Web and database servers are hosted at Exodus Communications, Inc. in Jersey City, New Jersey, which provides communication lines from multiple providers including UUNet and AT&T, as well as 24-hour monitoring and engineering support. Exodus has its own generator and multiple back-up systems in Jersey City. Priceline.com also maintains an uninterruptible power supply system and generator and redundant servers at its Stamford, Connecticut headquarters to provide service capability if the Exodus site fails.

While priceline.com primarily is an Internet business, it also offers phone service through its toll-free number, 1-800-Priceline. This service allows consumers who do not have access to a computer to phone in their orders. From launch to December 31, 1998, priceline.com has received approximately 15% of its airline ticket orders through its toll-free number. In addition, consumers who choose not to transmit their credit card information via the Internet have the option of submitting their credit card information through the phone service. Priceline.com also uses its toll-free number to provide customer service.

## INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

Priceline.com holds a business process patent issued by the United States Patent and Trademark Office which is directed to a unique buyer-driven commerce system. While so-called business process patents are only now becoming widely understood by the general business community, a decision by the Court of Appeals for the Federal Circuit (the highest United States appellate court for patent-related appeals below the United States Supreme Court), recently affirmed the validity of patents covering software-implemented business processes. STATE STREET BANK & TRUST CO. V. SIGNATURE FINANCIAL GROUP, INC. (July 1998).

Priceline.com currently holds two issued United States patents, No. 5,794,207 and No. 5,797,127, as well as one allowed and eighteen pending United States patent applications and one pending international patent application. Priceline.com is in the process of filing at least three more patent applications, with an ongoing program for identifying and protecting new inventions. Priceline.com's core business method patent is directed to a unique buyer-driven commerce system using a computer to collect credit card-backed or other financial account-backed conditional purchase offers to present to multiple sellers, receive one or more acceptances or fulfillments of these offers, and use the credit card or other financial account to provide a payment to one or more of the sellers. The pending patent applications are directed to various operational features of the system, as well as to product-specific enhancements.

While priceline.com believes that its core buyer-driven commerce patent, together with its pending patent applications, help to protect the priceline.com business, there can be no assurance that (1) the core buyer-driven patent or any other patent can be successfully defended against challenges by third parties; (2) the pending patent applications will result in the issuance of patents; (3) competitors or potential competitors of priceline.com will not devise new methods of competing with the company that are not covered by priceline.com's patent or patent applications; (4) because of variations in the application of our business model to each of our products and services, our core buyer-driven commerce patent may not be effective in preventing one or more third parties from utilizing a copycat business model to offer the same product or service in one or more categories; or (5) a third party will not have or obtain one or more patents that prevent priceline.com from practicing features of its business or will require priceline.com to pay for a license to use those features. Priceline.com has been notified that a third party patent applicant has challenged its core patent through an interference action in the United States Patent and Trademark Office. See "-- Legal Proceedings." In addition, priceline.com has learned of several Internet travel services that appear to use customer-offer based transaction models.

Priceline.com seeks to protect its copyrights, service marks, trademarks, trade dress and trade secrets through a combination of laws and contractual restrictions, such as confidentiality agreements. For example, priceline.com attempts to register its trademarks and service marks in the United States and internationally. However, effective trademark, service mark, copyright and trade secret protection may not be available in every country in which priceline.com's services are made available online. See "Risk Factors -- Our Success Depends on Our Ability to Protect Our Intellectual Property." A third party has sued priceline.com for, among other things, misappropriation of trade secrets. See "Legal Proceedings."

Priceline.com currently owns the Internet domain name "priceline.com." Domain names generally are regulated by Internet regulatory bodies. The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. Priceline.com, therefore, could be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of its trademarks and other proprietary rights. See "Risk Factors -- Our Success Depends on Our Ability to Protect Our Intellectual Property."

## GOVERNMENTAL REGULATION

The products and services offered through the priceline.com service are regulated by federal and state governments.

## TRAVEL SERVICES

Priceline.com is subject to the laws and regulations of a number of states governing the offer and/or sale of travel services. For example, Priceline Travel is registered as a "seller of travel" under the California Seller of Travel Act and is a member of the Airline Reporting Corporation. Priceline.com also will be making similar filings for registration and membership prior to consummation of this offering. In addition, a number of state travel laws and regulations require compliance with specific disclosure, bond and/or other requirements. All travel registrations are presently held by Priceline Travel. To the extent that such registrations can be transferred by merger, priceline.com intends to succeed to all such registrations by merging with Priceline Travel prior to the consummation of this offering. Priceline.com expects to obtain all other required travel related registrations prior to the consummation of this offering.

## NEW CAR SALES

A number of states have laws and regulations governing the registration and conduct of automobile dealers and brokers. Such laws generally provide that any person receiving direct or indirect compensation for selling automobiles or brokering automobile transactions must register as an automobile broker or dealer. Registration for automobile dealers/brokers may, among other things, require the registrant to maintain a physical office in the applicable state, a dealer lot zoned for automobile sales within the applicable state and/or a franchise agreement with the manufacturers of the automobiles to be sold. Priceline.com believes that it is not subject to such automobile dealer/broker laws because priceline.com is a car buying service, and not a seller or broker of automobiles, operating on behalf of customers and participating dealers.

It is uncertain how automobile dealer and broker laws apply to the provision of automobile selling services offered through the Internet. Priceline.com has been orally advised by representatives of a number of states that, generally, no enforcement action will be initiated against Internet companies for non-compliance with such laws until clearer regulatory or legislative guidance is provided.

It is possible, however, that state regulatory bodies could take the view that priceline.com is subject to automobile broker and dealer laws, in which case they could attempt to require priceline.com to register as an automobile broker/dealer in the applicable states. Given the nature of priceline.com's business, any requirement to register under such laws could severely interfere with the conduct of its business.

## HOME MORTGAGES

Most states have laws and regulations governing the registration or licensing and conduct of persons providing mortgage brokerage services. Such laws and regulations also typically require certain consumer protection disclosures, loan solicitation procedures and a variety of other practices throughout the various stages of the mortgage solicitation, application and approval process.

In addition to state law, mortgage brokerage services are heavily regulated by federal law. For example, the Real Estate Settlement Procedures Act, prohibits the payment and receipt of mortgage loan referral fees. The act, however, does permit persons to be compensated for the fair market value of non-referral services actually rendered.

Priceline.com introduced its home mortgage service in January 1999. LendingTree serves as the mortgage broker and provides all mortgage brokerage services. Priceline.com provides and is responsible for maintaining the home mortgage service on its Web site and develops and purchases all advertising. LendingTree will compensate priceline.com for the fair market value of its non-referral services. Priceline.com believes that offering the priceline.com home mortgage service does not require our registration under or compliance with the mortgage or similar brokerage laws of any jurisdiction. However, it is possible that one or more regulatory authorities could seek to enforce existing laws, or otherwise enact new legislation, requiring priceline.com's registration and compliance and could scrutinize the compensation arrangement between LendingTree and priceline.com under Real Estate Settlement Procedures Act or

other federal or state laws. Such action could severely interfere with the conduct of the priceline.com business.

LendingTree provides the mortgage brokerage services offered through the priceline.com home mortgage service on priceline.com's Web site and is responsible for maintaining the necessary and appropriate state registrations and licenses associated with LendingTree's provision of those mortgage brokerage services. If a federal or state regulatory authority, or an aggrieved customer, should in the future claim that LendingTree has failed to comply fully with applicable federal or state law requirements pertaining to LendingTree's provision of mortgage brokerage services, the priceline.com home mortgage service could be materially and adversely affected and priceline.com may be unable to continue to make its home mortgage services Web site available, either to residents of affected state(s) or on a national basis.

#### CONSUMER PROTECTION AND RELATED LAWS

All of priceline.com's services are subject to federal and state consumer protection laws and regulations prohibiting unfair and deceptive trade practices. Priceline.com is also subject to related "plain language" statutes in place in many jurisdictions, which require the use of simple, easy to read, terms and conditions in contracts with consumers.

Although there are very few laws and regulations directly applicable to the protection of consumers in an online environment, it is possible that legislation will be enacted in this area and could cover such topics as permissible online content and user privacy, including the collection, use, retention and transmission of personal information provided by an online user. Furthermore, the growth and demand for online commerce could result in more stringent consumer protection laws that impose additional compliance burdens on online companies. Such consumer protection laws could result in substantial compliance costs and interfere with the conduct and growth of the priceline.com business.

#### BUSINESS QUALIFICATION LAWS

Because priceline.com's service is available over the Internet in multiple states, and because it sells to numerous consumers resident in such states, such jurisdictions may claim that priceline.com is required to qualify to do business as a foreign corporation in each such state. Priceline.com is qualified to do business in a limited number of states, and failure by priceline.com to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject priceline.com to taxes and penalties for the failure to so qualify and limit its ability to conduct litigation in such states.

#### INTERNATIONAL EXPANSION

Priceline.com intends to explore opportunities for expanding the priceline.com business into international markets. It is possible, however, that the priceline.com demand collection system will not be readily adaptable to regulatory environments of certain foreign jurisdictions. In addition, there are various other risks associated with international expansion. They include language barriers, unexpected changes in regulatory requirements, trade barriers, problems in staffing and operating foreign operations, changes in currency exchange rates, difficulties in enforcing contracts and other legal rights, economic and political instability and problems in collection.

#### LEGAL PROCEEDINGS

On January 6, 1999, priceline.com received notice that a third party patent applicant and patent attorney, Thomas G. Woolston, purportedly had filed in December 1998 with the United States Patent and Trademark Office a request to declare an "interference" between a patent application filed by Woolston describing an electronic market for used and collectible goods and priceline.com's core buyer-driven commerce patent. Priceline.com has received a copy of a Petition for Interference from Woolston, the named inventor in at least three United States Patent applications titled "Consignment Nodes," one of which has issued as a patent (U.S. Patent Number: 5,845,265). Priceline.com currently is awaiting

information from the Patent Office regarding whether it will initiate an interference proceeding concerning Woolston's patent application and priceline.com's core buyer-driven commerce patent. An interference is an administrative proceeding instituted in the Patent Office to determine questions of patentability and priority of invention between two or more parties claiming the same patentable invention. There is no statutory period within which the Patent Office must act on an interference request. If an interference is declared and proceeds through a final hearing in the Patent Office, a final judgment is made by the Patent Office as to inventorship. Following such final judgment, appeals could be made in Federal court. While there can be no certainty as to time periods, interference proceedings typically take years to resolve.

As a threshold to the initiation of an interference proceeding, Woolston must show that his patent application supports claims that he copied from the priceline.com core buyer-driven commerce patent. In order to make this showing, he would have to prove, among other things, that he invented the subject matter of the priceline.com claims before the inventors of the priceline.com patent. If the Patent Office were to find that Woolston's patent application supported the copied priceline.com claims, it would resolve the interference by awarding inventorship to the party with the earliest proven date of invention. Woolston recently announced an agreement to license his issued patent and pending patent applications to the owner of an Internet travel service that, according to such announcement, commenced on-line operations in the fourth quarter of 1998 and purports to compete with priceline.com.

While the interference process is still at an early stage, priceline.com believes that it has meritorious defenses to Woolston's claim, which it intends to pursue vigorously. Among other things, priceline.com believes that the Woolston patent application does not disclose the inventions covered by the priceline.com patent claims. However, it is impossible to predict the outcome of an interference with certainty. While Woolston claims to have an earlier invention date by a period of approximately sixteen months, the final decision as to priority of invention would be made by the Patent Office after considering facts provided by each party during the interference proceeding. If an interference is declared and thereafter resolved in favor of Woolston, such resolution could result in an award of some or all of the disputed patent claims to Woolston. If, following such award, Woolston were successful in a patent infringement action against priceline.com, including prevailing over all defenses available to priceline.com such as those of non-infringement and invalidity, this could require priceline.com to obtain licenses from Woolston at a cost which could significantly adversely affect priceline.com's business. If, in addition to prevailing in both an interference and an infringement action, Woolston were able to make the showings necessary to obtain an injunction, then priceline.com could be enjoined from conducting business through the priceline.com service to the extent covered by the patent claims awarded to Woolston. In addition, defense of the interference action may be expensive and may divert management attention away from priceline.com's business.

On January 19, 1999, a lawsuit was filed in the United States District Court for the Northern District of California by Marketel International, Inc., a California corporation, under the caption MARKETEL INTERNATIONAL INC. V. PRICELINE.COM ET. AL., No. C-99-1061 (N.D. CA 1999), against priceline.com, Priceline Travel, Walker Asset Management, Walker Digital, Mr. Jay S. Walker, priceline.com's Founder and Vice Chairman, and Mr. Andre Jaeckle, an individual who made a \$1 million loan to priceline.com bearing interest at a rate of 6% per year, and in connection therewith, received warrants, which have subsequently been fully exercised, to purchase 62,500 shares of our common stock. On February 22, 1999, Marketel filed an amended and supplemental complaint. The amended complaint filed by Marketel, which joins as defendants Mr. Timothy G. Brier, our Executive Vice President, Travel, Mr. Bruce Schneier, an individual and consultant to Walker Digital, and Mr. James Jorasch, an individual and employee of Walker Digital, alleges causes of action for, among other things, misappropriation of trade secrets, breach of contract, conversion, breach of confidential relationship, copyright infringement, fraud, unfair competition, and false advertising, and seeks injunctive relief and damages in an unspecified amount. In its amended complaint, Marketel alleges, among other things, that the defendants conspired to misappropriate Marketel's business model, which it describes as a buyer-driven electronic marketplace for travel services

and its appurtenant techniques, market research, forms, plans and processes, and which an executive of Marketel allegedly provided to Messrs. Walker and Jaeckle in confidence approximately ten years ago. The amended complaint also alleges that three former Marketel employees are the actual sole inventors or co-inventors of US patent No. 5794207, which was issued on August 11, 1998 with Jay S. Walker, Bruce Schneier and James Jorasch listed as the inventors and which patent has been assigned to priceline.com. Marketel asks that the patent's inventorship be corrected accordingly.

Based upon publicly available information, priceline.com believes that Marketel's fax and fee-based business was launched in 1991 and ceased operations seven months later. Priceline.com's Internet-based model was independently developed by Walker Digital and priceline.com, and practiced by priceline.com starting in 1998. Based on publicly available information and Marketel's complaint, priceline.com understands that Marketel operated a fax-based travel information service which offered consumers, travel agents and/or consolidators the opportunity to purchase specially printed forms. These forms, when accompanied by an additional non-refundable fee, allowed prospective ticket buyers to fax to Marketel credit-card guaranteed bids for airline travel at a bid price specified by the buyer. Priceline.com believes that Marketel has not engaged in any regular commercial activities since ceasing operations in 1992. Based upon publicly available information, Marketel reactivated its active status as a corporation by satisfying its back-due tax obligations to the State of California shortly after the filing of its complaint.

On February 5, and February 10, 1999, the defendants filed their answer and amended answer, respectively, to the amended complaint, in which they denied the material allegations of liability in the complaint. Priceline.com and all other defendants strongly dispute the material legal and factual allegations contained in Marketel's amended complaint and believe that the amended complaint is without merit. Priceline.com intends to defend vigorously against the action. Defending the law suit may involve significant expense and, due to the inherent uncertainties of litigation, there can be no certainty as to the ultimate outcome. Pursuant to the terms of the indemnification obligations contained in the Purchaser and Intercompany Agreement with Walker Digital, Walker Digital has agreed to indemnify priceline.com for damages, liability and legal expenses incurred in connection with the Marketel litigation.

From time to time priceline.com has been and expects to continue to be subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of third party intellectual property rights by the company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

#### EMPLOYEES

Currently, priceline.com has 177 full-time employees. In addition, through an Intercompany Agreement with Walker Digital Corporation, priceline.com receives a variety of services, including research and development, patent and other intellectual property services and technical support. Priceline.com also employs independent contractors to support its customer service and system support functions. See "Certain Transactions."

Priceline.com has never had a work stoppage and its employees are not represented by any collective bargaining unit. It considers its relations with its employees to be good. Priceline.com's future success will depend, in part, on its ability to continue to attract, integrate, retain and motivate highly qualified technical and managerial personnel, for whom competition is intense.

#### FACILITIES

Priceline.com's executive, administrative and operating offices are located in approximately 35,000 square feet of leased office space located in Stamford, Connecticut. Priceline.com is subleasing this office space from Walker Digital on a month-to-month basis. Priceline.com anticipates that it will require additional space within the next 12 months to accommodate its anticipated growth and that suitable office space will be available on commercially reasonable terms.



MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information regarding the directors and executive officers of priceline.com as of the date hereof. Service with priceline.com prior to July 1998 was rendered to priceline.com's predecessor, priceline.com LLC.

NAME	AGE	POSITION
Richard S. Braddock.....	57	Chairman and Chief Executive Officer
Jay S. Walker.....	43	Founder and Vice Chairman
Jesse M. Fink.....	42	Chief Operating Officer
Paul E. Francis.....	44	Chief Financial Officer
Ronald V. Rose.....	48	Chief Information Officer
Mark Benerofe.....	39	Executive Vice President, Corporate Development
Timothy G. Brier.....	50	Executive Vice President, Travel
Melissa M. Taub.....	35	Senior Vice President, General Counsel and Secretary
Thomas P. D'Angelo.....	39	Vice President, Finance and Controller
Paul A. Allaire.....	60	Director
Ralph M. Bahna(a).....	56	Director
Paul J. Blackney(b).....	52	Director
William E. Ford(b).....	37	Director
Marshall Loeb(a).....	69	Director
N.J. Nicholas, Jr.(a)(b).....	59	Director
Nancy B. Peretsman.....	44	Director

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- (a) Member of the Compensation Committee.
- (b) Member of the Audit Committee.

RICHARD S. BRADDOCK has served as Chairman of the board of directors and Chief Executive Officer of priceline.com since August 1998. From December 1997 to January 1999, he served as the non-executive Chairman of True North Communications, Inc. and Ion Laser Technology. From September 1996 to August 1997, he served as a special advisor to General Atlantic Partners, LLC. Mr. Braddock was a principal of Clayton, Dubilier & Rice, from June 1994 through September 1995. He also served as Chief Executive Officer of Medco Containment Services during 1993. From 1973 to 1993, Mr. Braddock held a variety of positions at Citicorp and its principal subsidiary, Citibank, N.A., including President and Chief Operating Officer. Mr. Braddock also serves as a director of NewSub Services, Inc.; Amtec, Inc, a semiconductor equipment manufacturer; Eastman Kodak Company, an imaging products company; E\*TRADE Group, Inc., a provider of online investing services; and Cadbury Schweppes plc, a global beverage and confectionery manufacturer.

JAY S. WALKER is priceline.com's Founder and has served as Vice Chairman of the board of directors of priceline.com since August 1998. From inception through August 1998, he served as Chairman of the board of directors and Chief Executive Officer of priceline.com. Mr. Walker is an entrepreneur and has been actively engaged in the start-up of new enterprises for more than 15 years. Mr. Walker serves as Chairman of the board of directors of Walker Digital Corporation, which he founded in September 1994. In addition, he is the co-founder and non-executive Chairman of NewSub Services, Inc., a direct marketing firm he co-founded in 1992.

JESSE M. FINK has been the Chief Operating Officer of priceline.com since its inception. Since June 1996, he has served as Chief Operating Officer of Walker Digital Corporation. From November 1984 to

June 1996, Mr. Fink served in various capacities with C.U.C. International, a membership marketing company that is now part of Cendant Corporation, including as a Divisional Senior Vice President--New Business Development.

PAUL E. FRANCIS has been the Chief Financial Officer of priceline.com since its inception. From June 1997 to December 1998, Mr. Francis also was Chief Financial Officer of Walker Digital. From April 1993 to February 1997, Mr. Francis was Executive Vice President--Finance and Administration, Chief Financial Officer and a member of the Board of Directors of Ann Taylor Stores Corporation, a specialty retailer of women's apparel. From 1986 to April 1993, Mr. Francis served in a variety of positions at Merrill Lynch & Co. and certain of its affiliates, including Managing Director in the Investment Banking Division.

RONALD V. ROSE has been the Chief Information Officer of priceline.com since March 1999. From September 1995 to March 1999, Mr. Rose served in various capacities with Standard & Poor's, a financial services company, including Chief Technology Officer of Retail Markets. While at Standard & Poor's, Mr. Rose led the development of many Internet initiatives within the Financial Information Services area and chaired the Internet Architecture Council. In 1998, Mr. Rose assisted in creating Xpresso, a leading JAVA financial desktop computer, and from 1991 to 1995, Mr. Rose assisted Bedford Associates, Inc., a technology company, in creating two technology start-up business units focused on telecommunications and technology consulting.

MARK BENEROFE has been Executive Vice President, Corporate Development, of priceline.com since August 1998. He also has been Chief Marketing Officer of Walker Digital Corporation since August 1998. From 1996 to 1998, Mr. Benerofe was Senior Vice President, Entertainment Programming & Systems Development, of Sony Online Entertainment, an entertainment and electronics company. From 1993 to 1998, he was a partner in Vortex Communications, a strategic marketing and product development service for online commerce, and from 1993 to 1994, he was the Director of Interactive Media at Microsoft.

TIMOTHY G. BRIER has been an Executive Vice President, Travel of priceline.com since its inception, and the President of Priceline Travel since June 1998. In 1994, Mr. Brier co-founded CAP Systems, a division of NewSub Services, Inc., that provides affinity marketing programs to airlines, and served as its President from 1995 to 1998. From 1990 to 1995, he was Vice President of Marketing for Continental Airlines. From 1988 to 1990, Mr. Brier was Vice President of Marketing Planning for Pan American World Airways and from 1985 to 1988 was Vice President of Marketing for TWA.

MELISSA M. TAUB has been Senior Vice President, General Counsel and Secretary of priceline.com since September 1998. Prior to joining priceline.com, Ms. Taub practiced law in the Business Clients Department of Cummings & Lockwood, a law firm with its principal office located in Stamford, Connecticut, serving as a partner from January 1998 to September 1998 and an associate from 1989 to December 1997.

THOMAS P. D'ANGELO has been Vice President, Finance and Controller of priceline.com since October 1997. From April 1993 to October 1997, he was Chief Financial Officer of Direct Travel, Inc., a corporate travel agency.

PAUL A. ALLAIRE has served as a director of priceline.com since February 1999. Since 1991, he has been the Chairman and Chief Executive Officer and the Chairman of the Executive Committee of Xerox Corporation, a company offering document processing services and products, and serves as a director of various affiliates of Xerox. Mr. Allaire also serves as a director of J.P. Morgan & Co., Inc., a global financial services company; Lucent Technologies Inc., a global communications systems and software company; Sara Lee Corporation, a global consumer packaged goods company; and SmithKline Beecham p.l.c., a healthcare company. Mr. Allaire is a member of The Business Roundtable and the Business Council and is a member of the board of directors of the Council on Foreign Relations, the Ford Foundation, and the Council on Competitiveness.

RALPH M. BAHNA has served as a director of priceline.com since July 1998. Since 1992, Mr. Bahna has been the President of Masterworks Development Corp., a company he founded to develop a chain of

hotels named Club Quarters-TM-. From 1980 to 1989, Mr. Bahna served as the Chief Executive Officer of Cunard Lines, Ltd., and the Cunard Group of Companies.

PAUL J. BLACKNEY has served as a director of priceline.com since July 1998. Since January 1998, he has been the Chairman of XTRA On-Line Corporation, a business to business desktop booking system. Since September 1993, he has been the Chairman and President of Galileo Japan. From September 1993 to September 1997, Mr. Blackney served as President and Chief Executive Officer of Apollo Travel Services Partnership, an airline central reservation system, and from March 1990 to September 1993, he served as Senior Vice President of Operations at Covia, an airline central reservation system.

WILLIAM E. FORD has served as a director of priceline.com since July 31, 1998. He is a Managing Member of General Atlantic Partners, LLC, a private equity firm that invests in software and information technology companies, where he has served since 1991. Mr. Ford also serves as a director of GT Interactive Software Corp., an interactive entertainment software company; MAPICS, Inc., a resources planning software applications company; Envoy Corporation, an electronic data processing company; LHS Group Inc., a billing solutions company; E\*TRADE Group, Inc., an online discount broker; Eclipsys Corporation, a provider of clinical, financial and administrative software solutions to the healthcare industry; and several private information technology companies. Mr. Ford serves on priceline.com's board of directors as the designee of General Atlantic pursuant to the terms of the Series A convertible preferred stock. He also serves as a director of NewSub Services, Inc.

MARSHALL LOEB has served as a director of priceline.com since July 1998. He is the Editor of the COLUMBIA JOURNALISM REVIEW and the author of MARSHALL LOEB'S LIFETIME FINANCIAL STRATEGIES. Mr. Loeb also is the broadcast commentator for the CBS Radio Network "Your Dollars" program. Mr. Loeb is a member of the Board of Overseers for the Stern School of Business at New York University and is the Chairman of the Advisory Board of the Bagehot Fellows Program at Columbia University. From 1994 to 1996, he was a columnist for FORTUNE and from 1986 to 1994, he served as the Managing Editor of FORTUNE magazine. From 1980 to 1984, he also was Managing Editor of MONEY magazine. Mr. Loeb also has served as the Business Editor, Nation Editor and Economics Editor of TIME magazine.

N. J. NICHOLAS, JR. has served as a director of priceline.com since July 1998. Mr. Nicholas is a private investor and from 1990 to 1992 was the co-Chief Executive Officer of Time Warner Inc. From 1986 to 1990, he was President of Time Inc. Mr. Nicholas also is a director of the Bankers Trust Company, an investment bank; BT Capital Partners, an affiliate of Bankers Trust; Boston Scientific Corporation, a developer, manufacturer and marketer of medical devices; and Xerox Corporation, a document processing company. He also serves on the boards of several privately owned companies, including NewSub Services, Inc., and is Chairman of the Advisory Board of the Columbia University Graduate School of Journalism.

NANCY B. PERETSMAN has served as a director of priceline.com since February 1999. Since June 1995, she has been a Managing Director and Executive Vice President of Allen & Company Incorporated, an investment bank. Prior to joining Allen & Company Incorporated, Ms. Peretsman had been an investment banker since 1983 at Salomon Brothers Inc., where she was a Managing Director since 1990. She served for fourteen years on the Board of Trustees of Princeton University and is currently an Emerita Trustee. Ms. Peretsman also serves on the board of NewSub Services, Inc.

#### BOARD COMMITTEES

Priceline.com's board of directors has an Audit Committee and a Compensation Committee. The Audit Committee of the Board consists of Messrs. Paul J. Blackney, William E. Ford and N.J. Nicholas, Jr. The Audit Committee reviews priceline.com's financial statements and accounting practices, makes recommendations to the board regarding the selection of independent auditors and reviews the results and scope of the audit and other services provided by priceline.com's independent auditors. Mr. Ford is Chairman of the Audit Committee. The Compensation Committee of the board consists of Messrs. Ralph M. Bahna, Marshall Loeb and N.J. Nicholas, Jr. The Compensation Committee makes recommendations to the board concerning salaries and incentive compensation for priceline.com's officers and employees

and administers priceline.com's employee benefit plans. Mr. Nicholas is Chairman of the Compensation Committee.

DIRECTOR COMPENSATION

Directors who are also employees of priceline.com receive no compensation for serving on the board of directors. With respect to directors who are not employees of priceline.com, priceline.com reimburses such non-employee directors for all travel and other expenses incurred in connection with attending board of directors and committee meetings. Non-employee directors are also eligible to receive stock option grants under the 1997 Omnibus Plan. Pursuant to such plan, Messrs. Bahna, Blackney, Ford, Loeb and Nicholas and Ms. Peretsman received grants of 31,250 options each in December 1998 and Mr. Allaire received a grant of 37,500 options in December 1998. Such options have vested and are exercisable at any time at an exercise price of \$3.20 per share, subject to certain restrictions described under "Shares Eligible for Future Sale."

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Compensation Committee of the board of directors is an officer or employee of priceline.com. No executive officer of priceline.com serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on priceline.com's Compensation Committee.

SUMMARY OF COMPENSATION

The following table sets forth information concerning compensation earned in the fiscal year ended December 31, 1998, by priceline.com's Chief Executive Officer and its other four most highly compensated executive officers.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG TERM COMPENSATION	ALL OTHER COMPENSATION (\$)
	YEAR	SALARY (\$)	BONUS (\$)	NUMBER OF SECURITIES UNDERLYING OPTIONS (#)	
Richard S. Braddock(a)..... Chairman and Chief Executive Officer	1998	112,500	--	6,250,000	(c)
Jay S. Walker(b)..... Vice Chairman and Founder	1998	250,000	--	1,515,000	--
Jesse M. Fink..... Chief Operating Officer	1998	227,083	--	2,443,750	1,028 (e)
Paul E. Francis..... Chief Financial Officer	1998	225,000 (d)	--	1,035,000	413 (e)
Timothy G. Brier..... Executive Vice President	1998	177,083	72,917	2,003,125	6,789 (e)

(a) Mr. Braddock commenced serving as Chairman and Chief Executive Officer in August 1998.

(b) Mr. Walker served as Chairman and Chief Executive Officer of priceline.com LLC from its formation until its conversion into priceline.com in August 1998, and of priceline.com from its inception until August 1998.

(c) Excludes the grant to Mr. Braddock in July 1998 of a profits interest with respect to 6,500,000 units in priceline.com's predecessor, priceline.com LLC, which units were converted into 8,125,000 shares of common stock.

(d) Includes distributions as a member in priceline.com's predecessor, priceline.com LLC.

(e) Represents life insurance premiums paid and, in the case of Mr. Fink, disability insurance premiums paid for the fiscal year.

## STOCK OPTIONS

The following table sets forth information concerning the grant of stock options to priceline.com's Chief Executive Officer and each of its other four most highly compensated executive officers during the fiscal year ended December 31, 1998.

## OPTION GRANTS IN LAST FISCAL YEAR

INDIVIDUAL GRANTS (A)						
NAME	NUMBER OF	% OF TOTAL	EXERCISE OR	EXPIRATION DATE	GRANT DATE	PRESENT
	SECURITIES					
	UNDERLYING	TO EMPLOYEES IN	(\$/SH)			(\$)
	OPTIONS	FISCAL YEAR				(B)
	GRANTED					
	(#)					
Richard S. Braddock.....	6,250,000	30.6	0.80	6/1/2008		812,579
Jay S. Walker.....	1,515,000	7.4	0.80	6/1/2008		196,969
Jesse M. Fink.....	2,443,750	12.0	0.80	6/1/2008		317,718
Paul E. Francis.....	1,035,000	5.1	0.80	6/1/2008		139,563
Timothy G. Brier.....	2,003,125	9.8	0.80	6/1/2008		260,431

(a) Options become exercisable as follows: (1) with respect to Mr. Braddock: (a) 2,500,000 shares will vest upon consummation of this offering, but are not exercisable until expiration of the lock-up period, and (b) 3,750,000 shares will vest on the earliest to occur of (x) priceline.com having a public market capitalization of \$750.0 million for five consecutive trading days, (y) priceline.com having pre-tax operating income of \$30.0 million or more over a twelve-month period occurring over four consecutive fiscal quarters or (z) August 15, 2007, but are not exercisable until expiration of the lock-up period; (2) with respect to Mr. Walker: (a) 1,250,000 shares are vested, but are not exercisable until expiration of the lock-up period, (b) 132,500 shares will vest on June 1, 1999, but are not exercisable until expiration of the lock-up period and (c) the remainder of the shares vest and become exercisable on June 1, 2000; (3) with respect to Mr. Fink: (a) 1,500,000 shares are vested, but are not exercisable until expiration of the lock-up period, (b) 625,000 shares will vest on June 1, 1999, but are not exercisable until expiration of the lock-up period and (c) the remainder of the shares vest and become exercisable on June 1, 2000; (4) with respect to Mr. Francis, (a) 375,000 shares are vested, but are not exercisable until expiration of the lock-up period, (b) 375,000 shares will vest on June 1, 1999, but are not exercisable until expiration of the lock-up period and (c) the remainder of the shares vest and become exercisable on June 1, 2000; and (5) with respect to Mr. Brier: (a) 937,500 shares are vested, but are not exercisable until expiration of the lock-up period, (b) 625,000 shares will vest on June 1, 1999, but that are not exercisable until expiration of the lock-up period and (c) the remainder of the shares vest and become exercisable on June 1, 2000.

(b) Based on Black-Scholes pricing model, using a discount rate of 6 percent, an expected life of 3 years, no dividends and no volatility.

## EXERCISE OF OPTIONS AND YEAR-END VALUES

The following table sets forth information concerning the exercise of stock options during the fiscal year ended December 31, 1998 by priceline.com's Chief Executive Officer and each of its other four most highly compensated executive officers and the fiscal year-end value of unexercised options.

## AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAMES	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SHARES	VALUE OF
			UNDERLYING UNEXERCISED OPTIONS AT FY-END (#)	UNEXERCISED IN-THE-MONEY OPTIONS AT FY-END (\$)
			UNEXERCISABLE	UNEXERCISABLE
			(A)	(B)
Richard S. Braddock.....	--	--	0/6,250,000	0/18,750,000
Jay S. Walker.....	--	--	0/1,515,000	0/4,545,000
Jesse M. Fink.....	--	--	0/2,443,750	0/7,331,250
Paul E. Francis.....	--	--	0/1,035,000	0/3,105,000

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(a) Assumes a fiscal year-end market price of \$3.20 per share.

## STOCK BASED PLANS

Pursuant to the priceline.com Incorporated 1997 Omnibus Plan, priceline.com has granted awards of options to certain officers, other employees, consultants and directors of priceline.com. The maximum number of shares of common stock reserved for the grant or settlement of awards under the 1997 Omnibus Plan is 23,875,000, subject to adjustment as provided therein. Of such number, 23,689,438 options covering shares of common stock were outstanding under the 1997 Omnibus Plan as of March 17, 1999. In February 1999, priceline.com established the priceline.com Incorporated 1999 Omnibus Plan, pursuant to which awards will be made to certain officers, other employees, consultants and directors of priceline.com from time to time following the consummation of this offering. The maximum number of shares of common stock reserved for the grant or settlement of awards under the 1999 Omnibus Plan is 9,375,000, subject to adjustment.

Set forth below is a description of the provisions of the 1999 Omnibus Plan and the provisions of the 1997 Omnibus Plan. The description is only a summary and is qualified in its entirety by the provisions of such plans. Terms not defined herein have the meanings given to such terms in the respective plans.

### PRICELINE.COM INCORPORATED 1997 OMNIBUS PLAN

The 1997 Omnibus Plan was ratified and approved by the board of directors and stockholders of priceline.com and by the Board of Managers and the members of priceline.com LLC in 1997. The 1997 Omnibus Plan is intended to promote the long term financial interests and growth of priceline.com by providing employees, officers, directors and consultants of priceline.com with appropriate incentives and rewards to enter into and continue in the employ of, or their relationship with, the company and to acquire a proprietary interest in the long-term success of the company; and to reward the performance of individual officers, other employees, consultants and directors in fulfilling their responsibilities for long-range achievements.

#### GENERAL

The 1997 Omnibus Plan provides for the granting of awards to such officers, other employees, consultants and directors of priceline.com and its affiliates as the compensation committee, which is the committee of the board appointed to administer the 1997 Omnibus Plan, may select from time to time. Awards under the 1997 Omnibus Plan may be made in the form of options to acquire priceline.com common stock. Some of the options granted under the 1997 Omnibus Plan may qualify as "incentive stock options;" as defined in the Internal Revenue Code of 1986, generally referred to as the "Code," and some of the options granted under the 1997 Omnibus Plan will not qualify as incentive stock options. Such options are generally referred to as "non-qualified stock options." Awards under the 1997 Omnibus Plan may also be made in the form of appreciation rights with respect to common stock, which appreciation rights may be granted in tandem with other awards or may be granted independent of other awards, or may be made in the form of restricted stock, phantom stock, stock bonuses or other awards.

If any shares subject to an award are forfeited, cancelled, exchanged or surrendered or if an award otherwise terminates or expires without a distribution of shares to the holder of such award, the shares of common stock with respect to such award will, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for awards under the 1997 Omnibus Plan.

In the event that the compensation committee determines that any dividend or other distribution (whether in the form of cash, common stock, or other property), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event, affects the common stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of holders of awards under the 1997 Omnibus Plan, then the compensation committee will make such equitable changes or adjustments as it deems necessary or appropriate to any or all of (1) the number and kind of shares of common stock or other property (including cash) that may thereafter be issued in connection with awards; (2) the number and kind of

shares of common stock or other property (including cash) issued or issuable in respect of outstanding awards; (3) the exercise price, grant price, or purchase price relating to any award; and (4) the maximum number of shares of common stock subject to outstanding awards that may be awarded to any employee during any priceline.com tax year; provided that, with respect to incentive stock options, such adjustment shall be made in accordance with the applicable provisions of the Code.

#### ADMINISTRATION

The 1997 Omnibus Plan will be administered by the compensation committee. The compensation committee has the authority in its sole discretion, subject to and not inconsistent with the express provisions of the 1997 Omnibus Plan, to administer the 1997 Omnibus Plan and to exercise all the powers and authorities either specifically granted to it under, or necessary or advisable in the administration of, the 1997 Omnibus Plan, including, without limitation, the authority to grant awards; to determine the persons to whom and the time or times at which awards shall be granted; to determine the type and number of awards to be granted, the number of shares of common stock to which an award may relate and the terms, conditions, restrictions and performance goals relating to any award; to determine whether, to what extent, and under what circumstances an award may be settled, canceled, forfeited, exchanged, or surrendered; to make adjustments in the performance goals in recognition of unusual or non-recurring events affecting priceline.com or the financial statements of priceline.com, to the extent not inconsistent with Section 162(m) of the Code, if applicable, or in response to changes in applicable laws, regulations, or accounting principles; to construe and interpret the 1997 Omnibus Plan and any award; to prescribe, amend and rescind rules and regulations relating to the 1997 Omnibus Plan; to determine the terms and provisions of agreements evidencing awards; and to make all other determinations deemed necessary or advisable for the administration of the 1997 Omnibus Plan.

The compensation committee may, in its absolute discretion, without amendment to the 1997 Omnibus Plan, (a) accelerate the date on which any option or stand-alone appreciation right granted under the 1997 Omnibus Plan becomes exercisable, waive or amend the operation of provisions respecting exercise after termination of employment or otherwise adjust any of the terms of such option or stand-alone appreciation right, (b) accelerate the vesting or waive any condition imposed with respect to any restricted stock, phantom stock or other awards and (c) otherwise adjust any of the terms applicable to any award.

#### AWARDS UNDER THE 1997 OMNIBUS PLAN

##### STOCK OPTIONS; STOCK APPRECIATION RIGHTS

Unless otherwise determined by the compensation committee, options granted pursuant to the 1997 Omnibus Plan will become exercisable ratably over three years commencing on the first anniversary of the date of grant, but in no event may an option be exercised more than 10 years following the date of its grant. The "option exercise price," which is the purchase price per share payable upon the exercise of an option, will be established by the compensation committee; PROVIDED, HOWEVER, that incentive stock options may not have an exercise price less than the fair market value of a share of common stock on the date of grant. The option exercise price is payable by any one of the following methods or a combination thereof, to the extent permitted by the compensation committee: (1) in cash or by personal check, certified check, bank cashier's check or wire transfer; (2) subject to the approval of the compensation committee, in common stock owned by the participant for at least six months prior to the date of exercise and valued at their fair market value on the effective date of such exercise; or (3) subject to the approval of the compensation committee, by such other provision as the compensation committee may from time to time authorize.

The compensation committee also has the authority to specify, at the time of grant or, with respect to non-qualified stock options at or after the time of grant, that a participant shall be granted a new non-qualified stock option, otherwise known as a "reload option," for a number of shares of common stock equal to the number of shares of common stock surrendered by the participant upon exercise of all or a



part of an option in the manner described above, subject to the availability of common stock under the 1997 Omnibus Plan at the time of such exercise; PROVIDED, HOWEVER, that no reload option shall be granted to a non-employee director. Reload options shall be subject to such conditions as may be specified by the compensation committee in its discretion, subject to the terms of the 1997 Omnibus Plan.

Appreciation rights with respect to priceline.com's common stock may be granted alone or in tandem with options. An appreciation right is a right to be paid an amount in cash for each share of common stock subject to the appreciation right equal to the excess of the fair market value of a share of common stock on the date the appreciation right is exercised over either the fair market value of a share of common stock on the date of grant, in case of a stand-alone appreciation right, or the exercise price of the related stock option, in case of a tandem appreciation right.

#### RESTRICTED STOCK; PHANTOM STOCK

A restricted stock award is an award of common stock and a phantom stock award is an award of the right to receive cash or common stock at a future date, in each case, that is subject to such restrictions on transferability and other restrictions, if any, as the compensation committee may impose at the date of grant or thereafter, which restrictions may lapse separately or in combination at such times, under such circumstances, including, without limitation, a specified period of employment or the satisfaction of pre-established performance goals, when granted to executive officers, in such installments, or otherwise, as the compensation committee may determine. The compensation committee may grant such restricted stock or phantom stock to such persons, in such amounts, and subject to such terms and conditions as the compensation committee may determine in its discretion; PROVIDED, HOWEVER, that shares of restricted stock and phantom stock granted to executive officers may vest upon the attainment of performance goals pre-established by the compensation committee, based on one or more of the following criteria: return on total owner equity; earnings per share; pre-tax income or after-tax income; revenue; return on assets; increases in EBITDA; or such other criteria as the stockholders of priceline.com may approve.

#### OTHER AWARDS

Upon a determination by the compensation committee, an executive officer may receive awards of shares of common stock. In addition, other awards valued in whole or in part by reference to, or otherwise based on, common stock may be granted either alone or in addition to other awards under the 1997 Omnibus Plan. Subject to the provisions of the 1997 Omnibus Plan, the compensation committee will have the sole and complete authority to determine the persons to whom and the time or times at which such other awards will be granted, the number of shares of common stock to be granted pursuant to such other awards and all other conditions of such other awards.

#### AMENDMENT; TERMINATION

The board of directors or the compensation committee may suspend, revise, terminate or amend the 1997 Omnibus Plan at any time; PROVIDED, HOWEVER, that (1) stockholder approval will be obtained if and to the extent required under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, which is generally referred to as the "Exchange Act," or if and to the extent the board determines that such approval is required for purposes of satisfying Section 162(m) or Section 422 of the Code and (2) no such suspension, revision, termination or amendment may, without the consent of a participant, reduce the participant's rights under any outstanding award.

#### NEW 1997 OMNIBUS PLAN BENEFITS

Prior to the consummation of the offering, priceline.com intends to grant additional awards under the 1997 Omnibus Plan up to the maximum number of shares currently reserved for the grant or settlement of awards under the 1997 Omnibus Plan. See "Option Grants in Last Fiscal Year" for the name, position and grant information for 1997 Omnibus Plan participants who were granted awards thereunder during fiscal year 1998.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a brief summary of the principal United States federal income tax consequences under current federal income tax laws relating to awards under the 1997 Omnibus Plan. This summary is not intended to be exhaustive and, among other things, does not describe state, local or foreign income and other tax consequences.

### NON-QUALIFIED STOCK OPTIONS

An optionee will not recognize any taxable income upon the grant of a non-qualified stock option. Priceline.com will not be entitled to a tax deduction with respect to the grant of a non-qualified stock option. Upon exercise of a non-qualified stock option, the excess of the fair market value of the common stock on the exercise date over the option exercise price will be taxable as compensation income to the optionee and will be subject to applicable withholding taxes. Priceline.com will generally be entitled to a tax deduction at such time in the amount of such compensation income. The optionee's tax basis for the common stock received pursuant to the exercise of a non-qualified stock option will equal the sum of the compensation income recognized and the exercise price.

In the event of a sale of common stock received upon the exercise of a non-qualified stock option, any appreciation or depreciation after the exercise date generally will be taxed as capital gain or loss.

### INCENTIVE STOCK OPTIONS

An optionee will not recognize any taxable income at the time of grant or timely exercise of an incentive stock option and priceline.com will not be entitled to a tax deduction with respect to such grant or exercise. Exercise of an incentive stock option may, however, give rise to taxable compensation income subject to applicable withholding taxes, and a tax deduction to priceline.com, if the incentive stock option is not exercised on a timely basis (generally, while the optionee is employed by priceline.com or within 90 days after termination of employment) or if the optionee subsequently engages in a "disqualifying disposition," as described below.

A sale or exchange by an optionee of shares acquired upon the exercise of an incentive stock option more than one year after the transfer of the shares to such optionee and more than two years after the date of grant of the incentive stock option will result in any difference between the net sale proceeds and the exercise price being treated as long-term capital gain or loss to the optionee. If such sale or exchange takes place within two years after the date of grant of the incentive stock option or within one year from the date of transfer of the incentive stock option shares to the optionee, such sale or exchange will generally constitute a "disqualifying disposition" of such shares that will have the following results: any excess of (x) the lesser of (1) the fair market value of the shares at the time of exercise of the incentive stock option and (2) the amount realized on such disqualifying disposition of the shares over (y) the option exercise price of such shares, will be ordinary income to the optionee, subject to applicable withholding taxes, and priceline.com will be entitled to a tax deduction in the amount of such income. Any further gain or loss after the date of exercise generally will qualify as capital gain or loss and will not result in any deduction by priceline.com.

### APPRECIATION RIGHTS

The grant of appreciation rights has no federal income tax consequences at the time of grant. Upon the exercise of appreciation rights, the amount received is generally taxable as ordinary income, and priceline.com is entitled to a corresponding deduction.

### RESTRICTED STOCK

A grantee will not recognize any income upon the receipt of restricted stock unless the holder elects under Section 83(b) of the Code, within thirty days of such receipt, to recognize ordinary income in an amount equal to the fair market value of the restricted stock at the time of receipt, less any amount paid for the shares. If the election is made, the holder will not be allowed a deduction for amounts subsequently

required to be returned to priceline.com. If the election is not made, the holder will generally recognize ordinary income, on the date that the restrictions to which the restricted stock are subject are removed, in an amount equal to the fair market value of such shares on such date, less any amount paid for the shares. At the time the holder recognizes ordinary income, priceline.com generally will be entitled to a deduction in the same amount.

Generally, upon a sale or other disposition of restricted stock with respect to which the holder has recognized ordinary income, for example, if a Section 83(b) election was previously made or the restrictions were previously removed, the holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on such sale or other disposition and the holder's basis in such shares.

#### PHANTOM STOCK

The grant of phantom stock has no federal income tax consequences at the time of grant. Upon the receipt of payment, the amount received is generally taxable as ordinary income, and priceline.com is entitled to a corresponding deduction.

#### OTHER TYPES OF AWARDS

The grant of any other stock-based award generally will not result in income for the grantee or in a tax deduction for priceline.com. Upon the settlement of such an award, the grantee will recognize ordinary income equal to the aggregate value of the payment received, and priceline.com generally will be entitled to a tax deduction in the same amount.

#### PRICELINE.COM INCORPORATED 1999 OMNIBUS PLAN

In February 1999, priceline.com established the 1999 Omnibus Plan. The 1999 Omnibus Plan is intended to promote the long-term financial interests and growth of priceline.com by providing employees of priceline.com with appropriate incentives and rewards to encourage them to enter into and continue in the employ of the company and to acquire a proprietary interest in the long-term success of the company; and to reward the performance of individual officers, other employees, consultants and directors in fulfilling their responsibilities for long-range achievements.

#### GENERAL

The 1999 Omnibus Plan provides for the granting of awards to such officers, other employees, consultants and directors of priceline.com and its affiliates as the compensation committee, which is the committee of the board of directors appointed to administer the Plan may select from time to time. Awards under the 1999 Omnibus Plan may be made in the form of incentive stock options, non-qualified stock options, restricted stock or other awards.

The maximum number of shares of common stock reserved for the grant or settlement of awards under the 1999 Omnibus Plan is 9,375,000 subject to adjustment as provided in the 1999 Omnibus Plan. The maximum number of shares of common stock that may be awarded in respect of options, restricted stock and other awards to a single individual in any given year may not exceed 9,375,000, 3,125,000 and 6,250,000, respectively, which amounts are subject to adjustment as described below. Awards (either as options, restricted stock or other awards) will be made in a manner consistent with Section 162(m) of the Code. Shares of common stock acquired upon the exercise or settlement of awards may, in whole or in part, be authorized but unissued shares or shares that shall have been or may be reacquired by priceline.com in the open market, in private transactions or otherwise. If any shares subject to an award are forfeited, cancelled, exchanged or surrendered or if an award otherwise terminates or expires without a distribution of shares to the holder of such award, the shares of common stock with respect to such award will, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for awards under the 1999 Omnibus Plan.

Except as provided in an agreement evidencing the grant of an award, in the event that the compensation committee determines that any dividend or other distribution (whether in the form of cash, common stock, or other property), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event, affects the common stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of holders of awards under the 1999 Omnibus Plan, then the compensation committee will make such equitable changes or adjustments as it deems necessary or appropriate to any or all of (1) the number and kind of shares of common stock or other property (including cash) that may thereafter be issued in connection with awards, (2) the number and kind of shares of common stock or other property, including cash, issued or issuable in respect of outstanding awards, (3) the exercise price, grant price, or purchase price relating to any award; provided that, with respect to incentive stock options, such adjustment shall be made in accordance with Section 424(h) of the Code, (4) the performance criteria with respect to an award and (5) the individual limitations applicable to awards.

#### ADMINISTRATION

The 1999 Omnibus Plan is administered by the compensation committee, the composition of which will at all times satisfy the provisions of Section 162(m) of the Code and Rule 16b-3 promulgated under the Exchange Act. The compensation committee has the authority, in its sole discretion, subject to and not inconsistent with the express provisions of the 1999 Omnibus Plan, to administer, and to exercise all the powers and authorities either specifically granted to it under, the 1999 Omnibus Plan or necessary or advisable in the administration of the 1999 Omnibus Plan, including, without limitation, the authority to grant awards; to determine the persons to whom and the time or times at which awards shall be granted; to determine the type and number of awards to be granted, the number of shares of common stock to which an award may relate and the terms, conditions, restrictions and performance goals relating to any award; to determine whether, to what extent, and under what circumstances an award may be settled, canceled, forfeited, exchanged, or surrendered; to make adjustments in the performance goals in recognition of unusual or non-recurring events affecting priceline.com or the financial statements of priceline.com, to the extent not inconsistent with Section 162(m) of the Code, if applicable, or in response to changes in applicable laws, regulations, or accounting principles; to construe and interpret the 1999 Omnibus Plan and any award; to prescribe, amend and rescind rules and regulations relating to the 1999 Omnibus Plan; to determine the terms and provisions of agreements evidencing awards; and to make all other determinations deemed necessary or advisable for the administration of the 1999 Omnibus Plan.

The compensation committee may, in its absolute discretion, without amendment to the 1999 Omnibus Plan, (a) accelerate the date on which any option granted thereunder becomes exercisable, waive or amend the operation of the 1999 Omnibus Plan provisions thereunder respecting exercise after termination of employment or otherwise adjust any of the terms of such option, (b) accelerate the vesting or waive any condition imposed with respect to any restricted stock and (c) otherwise adjust any of the terms applicable to any award.

#### AWARDS UNDER THE 1999 OMNIBUS PLAN

##### STOCK OPTIONS

Unless otherwise determined by the compensation committee, options granted pursuant to the 1999 Omnibus Plan become exercisable ratably over three years commencing on the first anniversary of the date of grant. The "option exercise price," which is the purchase price per share payable upon the exercise of an option, will be established by the compensation committee; PROVIDED, HOWEVER, that the option exercise price may be no less than the fair market value of a share of common stock on the date of grant. The option exercise price is payable by any one of the following methods or a combination thereof: (1) in cash or by personal check, certified check, bank cashier's check or wire transfer; (2) subject to the approval of the compensation committee, in stock owned by the participant for at least six months prior to the date of

exercise and valued at their fair market value on the effective date of such exercise; or (3) in such other manner as the compensation committee may from time to time authorize.

#### RESTRICTED STOCK

The compensation committee may grant restricted shares of common stock to such persons, in such amounts, and subject to such terms and conditions, including the attainment of performance goals, which performance goals may be based upon one or more of the following criteria: pre-tax or after-tax income; operating profit; return on equity, assets, capital or investment; earnings or book value per share; sales or revenues; operating expenses; stock price appreciation; and the implementation or completion of critical projects or processes, as the compensation committee may determine in its discretion. Unless the compensation committee determines otherwise, termination of employment during the restricted period will result in the forfeiture by the participant of all shares still subject to restrictions.

#### OTHER AWARDS

Other awards valued in whole or in part by reference to, or otherwise based on, common stock may be granted either alone or in addition to other awards under the 1999 Omnibus Plan. Subject to the provisions of the 1999 Omnibus Plan, the compensation committee has the sole and complete authority to determine the persons to whom and the time or times at which such other awards will be granted, the number of shares of common stock to be granted pursuant to such other awards and all other conditions of such other awards, including the attainment of performance goals.

#### OTHER FEATURES OF THE 1999 OMNIBUS PLAN

In the event of a Change in Control, as defined in the 1999 Omnibus Plan, of priceline.com, all outstanding awards will become fully vested and/or immediately exercisable and any restrictions thereon will lapse.

The board or the compensation committee may suspend, revise, terminate or amend the 1999 Omnibus Plan at any time; PROVIDED, HOWEVER, that no such action may, without the consent of a participant, reduce the participant's rights under any outstanding award.

#### NEW PLAN BENEFITS

Inasmuch as awards under the 1999 Omnibus Plan will be granted at the sole discretion of the compensation committee, it is not possible to determine the awards that will be granted at the time of the offering or during 1999. See "Option Grants in Last Fiscal Year."

#### CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a brief summary of the principal United States Federal income tax consequences under current Federal income tax laws relating to awards under the 1999 Omnibus Plan. This summary is not intended to be exhaustive and, among other things, does not describe state, local or foreign income and other tax consequences.

#### NON-QUALIFIED STOCK OPTIONS

An optionee will not recognize any taxable income upon the grant of a non-qualified stock option. Priceline.com will not be entitled to a tax deduction with respect to the grant of a non-qualified stock option. Upon exercise of a non-qualified stock option, the excess of the fair market value of the common stock on the exercise date over the option exercise price will be taxable as compensation income to the optionee and will be subject to applicable withholding taxes. Priceline.com will generally be entitled to a tax deduction at such time in the amount of such compensation income. The optionee's tax basis for the common stock received pursuant to the exercise of a non-qualified stock option will equal the sum of the compensation income recognized and the exercise price.

In the event of a sale of common stock received upon the exercise of a non-qualified stock option, any appreciation or depreciation after the exercise date generally will be taxed as capital gain or loss.

#### INCENTIVE STOCK OPTIONS

An optionee will not recognize any taxable income at the time of grant or timely exercise of an incentive stock option and priceline.com will not be entitled to a tax deduction with respect to such grant or exercise. Exercise of an incentive stock option may, however, give rise to taxable compensation income subject to applicable withholding taxes, and a tax deduction to priceline.com, if the incentive stock option is not exercised on a timely basis (generally, while the optionee is employed by priceline.com or within 90 days after termination of employment) or if the optionee subsequently engages in a "disqualifying disposition," as described below.

A sale or exchange by an optionee of shares acquired upon the exercise of an incentive stock option more than one year after the transfer of the shares to such optionee and more than two years after the date of grant of the incentive stock option will result in any difference between the net sale proceeds and the exercise price being treated as long-term capital gain or loss to the optionee. If such sale or exchange takes place within two years after the date of grant of the incentive stock option or within one year from the date of transfer of the incentive stock option shares to the optionee, such sale or exchange will generally constitute a "disqualifying disposition" of such shares that will have the following results: any excess of (a) the lesser of (i) the fair market value of the shares at the time of exercise of the Incentive Stock Option and (ii) the amount realized on such disqualifying disposition of the shares over (b) the option exercise price of such shares, will be ordinary income to the optionee, subject to applicable withholding taxes, and priceline.com will be entitled to a tax deduction in the amount of such income. Any further gain or loss after the date of exercise generally will qualify as capital gain or loss and will not result in any deduction by priceline.com.

#### RESTRICTED STOCK

A grantee will not recognize any income upon the receipt of restricted stock unless the holder elects under Section 83(b) of the Code, within thirty days of such receipt, to recognize ordinary income in an amount equal to the fair market value of the restricted stock at the time of receipt, less any amount paid for the shares. If the election is made, the holder will not be allowed a deduction for amounts subsequently required to be returned to priceline.com. If the election is not made, the holder will generally recognize ordinary income, on the date that the restrictions to which the restricted stock are subject are removed, in an amount equal to the fair market value of such shares on such date, less any amount paid for the shares. At the time the holder recognizes ordinary income, priceline.com generally will be entitled to a deduction in the same amount.

Generally, upon a sale or other disposition of restricted stock with respect to which the holder has recognized ordinary income, for example, if a Section 83(b) election was previously made or the restrictions were previously removed, the holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on such sale or other disposition and the holder's basis in such shares.

#### OTHER TYPES OF AWARDS

The grant of any other stock-based award generally will not result in income for the grantee or in a tax deduction for priceline.com. Upon the settlement of such an award, the grantee will recognize ordinary income equal to the aggregate value of the payment received, and priceline.com generally will be entitled to a tax deduction in the same amount.

#### EMPLOYMENT ARRANGEMENTS

**BRADDOCK EMPLOYMENT AGREEMENT.** Pursuant to an employment agreement, dated as of August 15, 1998, between priceline.com and Mr. Richard S. Braddock, Mr. Braddock serves as the Chairman and

Chief Executive Officer of priceline.com through August 15, 2001. While Mr. Braddock devoted a majority of his working time to priceline.com following commencement of his employment, he retained his position as non-executive Chairman of True North Communications, Inc. until January 31, 1999. Mr. Braddock now serves as the Chairman and Chief Executive Officer of priceline.com on a full-time basis. Pursuant to an agreement in principle entered into July 23, 1998, by and between priceline.com and Mr. Braddock in anticipation of entering into the employment agreement, Mr. Braddock received 6,500,000 equity units in priceline.com's predecessor, which have since been converted into 8,125,000 shares of common stock. Mr. Braddock also was granted an option to purchase up to 5,000,000 equity units in priceline.com's predecessor at an exercise price of \$1.00 per share, subject to standard anti-dilution adjustments, which has been converted into an option to purchase 6,250,000 shares of common stock at an exercise price of \$0.80 per share. While the option is not exercisable until expiration of 180 day period following consummation of the offering, the option will vest with respect to 2,500,000 of such shares upon consummation of this offering and will vest with respect to the remaining 3,750,000 shares on the earliest to occur of: (1) priceline.com having a public market capitalization of \$750.0 million for five consecutive trading days; (2) priceline.com having pre-tax operating income of \$30.0 million or more over a twelve-month period occurring over four consecutive fiscal quarters; and (3) August 15, 2007, subject, in each case, to acceleration or cancellation under certain circumstances in connection with the termination of Mr. Braddock's employment. Under the terms of his employment agreement, Mr. Braddock is entitled to an initial annual base salary of \$300,000, subject to annual adjustment, and is eligible to participate in any cash bonus program that may be introduced by priceline.com. In connection with the execution of the employment agreement, Mr. Braddock also received an option to purchase an equity interest in Walker Digital from Walker Digital.

FINK EMPLOYMENT AGREEMENT. Pursuant to an employment agreement, dated as of January 1, 1998, as amended, between priceline.com, Walker Digital, Mr. Jay S. Walker and Mr. Jesse M. Fink, Mr. Fink serves as the Chief Operating Officer of both priceline.com and Walker Digital for a term expiring January 1, 2001. Under the terms of his employment agreement, Mr. Fink is entitled to an annual base salary of \$225,000, subject to annual adjustment, and is eligible to participate in any cash bonus program that may be introduced by priceline.com. Payment of Mr. Fink's salary is allocated between priceline.com and Walker Digital as mutually agreed. In addition, Mr. Fink was issued 2,700,000 equity units in the priceline.com LLC, which units have since been converted into 3,375,000 shares of common stock. Priceline.com also granted Mr. Fink an option to purchase up to 2,443,750 shares of common stock at an exercise price of \$0.80 per share, subject to standard anti-dilution adjustments. The option:

- currently is vested for 1,500,000 of such shares that are not exercisable until expiration of the lock-up period;
- will vest for an additional 625,000 of such shares on June 1, 1999 that are not exercisable until expiration of the lock-up period; and
- will become exercisable for the balance of such shares on June 1, 2000, subject in each case, to acceleration or cancellation under certain circumstances in connection with the termination of his employment.

Under the terms of his employment agreement, Mr. Fink also is entitled to additional compensation from Walker Digital and Mr. Walker. In addition, the employment agreement provides that, upon the mutual agreement of Mr. Fink and Mr. Walker, Mr. Fink may be employed by an entity controlled by Mr. Walker, other than priceline.com or Walker Digital.

BRIER EMPLOYMENT AGREEMENT. Pursuant to an employment agreement, dated as of July 23, 1998, as amended, between priceline.com and Mr. Timothy G. Brier, Mr. Brier serves as an Executive Vice President of priceline.com and as the President of Priceline Travel, Inc., through December 31, 2000. Under the terms of his employment agreement, Mr. Brier is entitled to an annual base salary of \$250,000, and until April 6, 1999, is entitled to receive cash bonuses based upon the number of airlines and

consolidators that participate in the priceline.com service. Under certain circumstances, Mr. Brier may also be entitled to a compensatory bonus that is designed to ensure that his aggregate annual compensation for services rendered to priceline.com and CAP Systems, another entity affiliated with Mr. Walker for which Mr. Brier continues to provide services, equals \$625,000. In addition, Mr. Brier was issued 1,200,000 equity units in priceline.com LLC, which have since been converted into 1,500,000 shares of common stock. Priceline.com also granted Mr. Brier an option to purchase up to 2,003,125 shares of common stock at an exercise price of \$0.80 per share, subject to standard anti-dilution adjustments. The option:

- currently is vested for 937,500 of such shares that are not exercisable until expiration of the lock-up period;
- will vest for an additional 625,000 of such shares on June 1, 1999 that are not exercisable until expiration of the lock-up period; and
- will become exercisable for the balance of such shares on June 1, 2000, subject, in each case, to acceleration or cancellation under certain circumstances in connection with the termination of Mr. Brier's employment.

#### NEW CHIEF OPERATING OFFICER

Priceline.com recently has retained a recruitment firm to assist in the search for a new Chief Operating Officer to replace Mr. Jesse M. Fink. Upon finding a suitable replacement, Mr. Fink intends to resign as the Chief Operating Officer of priceline.com, but will continue in his current position as the Chief Operating Officer of Walker Digital. Mr. Fink may, however, provide services to priceline.com in a different capacity.

#### INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY

Section 145 of the Delaware General Corporation Law authorizes a corporation's board of directors to grant indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933, as amended, which is commonly referred to as the "Securities Act."

As permitted by Delaware law, priceline.com's certificate of incorporation includes a provision that eliminates the personal liability of its directors for monetary damages for breach of fiduciary duty as a director, except for liability (1) for any breach of the director's duty of loyalty to priceline.com or its stockholders; (2) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (3) under Section 174 of the Delaware General Corporation Law regarding unlawful dividends and stock purchases; or (4) for any transaction from which the director derived an improper personal benefit.

As permitted by Delaware law, priceline.com's certificate of incorporation, provides that (1) priceline.com is required to indemnify its directors and officers to the fullest extent permitted by Delaware law, subject to certain very limited exceptions; (2) priceline.com is permitted to indemnify its other employees to the extent that it indemnifies its officers and directors, unless otherwise required by law, its certificate of incorporation, its by-laws or agreements; (3) priceline.com is required to advance expenses, as incurred, to its directors and officers in connection with a legal proceeding to the fullest extent permitted by Delaware law, subject to certain very limited exceptions; and (4) the rights conferred in the certificate of incorporation are not exclusive.



## CERTAIN TRANSACTIONS

Priceline.com was founded as a limited liability company in July 1997 and converted to a corporation in July 1998. In connection with this conversion, all equity units issued by priceline.com's predecessor were converted into an equal number of shares of common stock. The following discussion does not distinguish between priceline.com and its predecessor and the common stock and the equity units of priceline.com's predecessor.

### EQUITY TRANSACTIONS

Upon its inception, priceline.com issued to Mr. Jay S. Walker, its Founder, 35,640,211 shares of common stock for services previously rendered. Priceline.com also issued 6,895,834 shares of common stock to Walker Digital, an affiliate of Mr. Walker, in partial consideration for the transfer of certain intellectual property to priceline.com. Subsequently, priceline.com sold an aggregate of 25,212,955 shares of common stock to Mr. Walker and his affiliates for \$0.80 per share, the estimated fair market value of the shares at the time of the sale.

Upon its inception, priceline.com issued to several officers of priceline.com an aggregate of 7,350,000 shares of common stock for services previously rendered. Of such shares, 3,375,000 shares were issued to Mr. Jesse M. Fink, 1,500,000 shares were issued to Mr. Timothy G. Brier and 675,000 shares were issued to Paul E. Francis.

In October 1997, priceline.com sold 713,470 shares of common stock to Mr. Paul E. Francis, its Chief Financial Officer, for approximately \$0.70 per share, the estimated fair market value of the shares at the time of the sale.

In February 1998, priceline.com sold 2,854,875 shares of common stock to an affiliate of General Atlantic for approximately \$0.70 per share, the estimated fair market value of the shares at the time of the sale. Affiliates of General Atlantic own in excess of 5 percent of the outstanding capital of priceline.com.

On July 1, 1998, priceline.com sold 1,250,000 shares of common stock to Mr. Richard S. Braddock, its Chief Executive Officer, for \$0.80 per share. In December 1998, priceline.com sold an additional 78,125 shares of common stock to Mr. Braddock for \$3.20 per share. The per share purchase price for both transactions represented the estimated fair value of the shares at the time of such transactions.

On July 1, 1998, priceline.com sold 312,500 shares of common stock to Mr. Ralph M. Bahna, who is a director of the company, for \$0.80 per share, the estimated fair market value of the shares at the time of the sale.

On July 1, 1998, priceline.com sold 625,000 shares of common stock to a family trust of Mr. N.J. Nicholas, Jr., who is a director of the company, for \$0.80 per share, the estimated fair market value of the shares at the time of the sale.

On July 31, 1998, priceline.com sold an aggregate of 17,288,684 shares of preferred stock to two affiliates of General Atlantic for approximately \$1.16 per share, the estimated fair market value of the shares at the time of the sale. This preferred stock is automatically convertible into 21,610,855 shares of common stock upon the completion of this offering.

In October 1998, priceline.com sold 107,759 shares of common stock to Mr. Paul J. Blackney, who is a director of the company, for \$0.93 per share, the estimated fair market value of the shares at the time of the purchase.

In December 1998, priceline.com sold an aggregate of 13,837,500 shares of preferred stock to a group of investors for \$4.00 per share, the estimated fair market value of the shares at the time of the sale. Of such shares, 7,500,000 shares were sold to Vulcan Ventures Incorporated, an aggregate of 1,437,500 shares were sold to affiliates of General Atlantic and 275,000 shares were sold to Allen & Company Incorporated.

Vulcan Ventures and affiliates of General Atlantic each own in excess of 5 percent of the capital stock of priceline.com. Ms. Nancy B. Peretsman, who is a director of priceline.com, also is a director and stockholder of Allen & Company. This preferred stock is automatically convertible into 17,296,875 shares of common stock upon the completion of this offering.

#### RELATIONSHIP WITH WALKER DIGITAL

The priceline.com core buyer driven commerce business model and related intellectual property rights were initially developed by Walker Digital, a technology research and development company that was founded and is controlled by Mr. Walker. In partial consideration for the transfer of such rights, priceline.com issued Walker Digital 6,895,834 shares of common stock. Priceline.com also granted Walker Digital a perpetual, non-exclusive, royalty-free right and license to use the intellectual property related to the priceline.com service for non-commercial internal research and development purposes. Priceline.com also has the right to purchase at fair market value any intellectual property that is owned and subsequently acquired, developed or discovered by Walker Digital that will provide significant value in the use or commercial exploitation of the priceline.com system.

Walker Digital and priceline.com provide each other with a variety of services. The services provided by priceline.com include management and administrative services. The services provided by Walker Digital include (1) research and development assistance; (2) patent and intellectual property services; and (3) technical support. Walker Digital also subleases a portion of its Stamford, Connecticut facilities to priceline.com on a month-to-month basis.

Several of priceline.com's executive officers and other key employees also are directors, officers, employees or stockholders of Walker Digital and either own, or hold an option to purchase, equity securities of Walker Digital.

Priceline.com issued a promissory note to Walker Digital for \$1,000,000 in June 1998. The promissory note bore interest at a rate of 6% per annum and was due June 30, 1999. The Note has been repaid.

#### MERGER OF PRICELINE TRAVEL, INC. INTO PRICELINE.COM

Priceline.com's travel agency license is held by Priceline Travel, a separate company owned by Mr. Walker. As a result, all of priceline.com's airline ticket sales have been effected through Priceline Travel. Priceline Travel will be merged into priceline.com prior to the consummation of this offering for nominal consideration.

#### OTHER TRANSACTIONS

Prior to completion of this offering, priceline.com intends to make a loan to Mr. Richard S. Braddock in an amount sufficient to enable the payment of taxes related to the issuance to Mr. Braddock of 8,125,000 shares of common stock. The loan will bear interest at the applicable federal rate specified from time to time by the Internal Revenue Service. Principal and interest on the loan will be payable in January 2004.

Priceline.com has entered into compensation arrangements with certain of its directors and officers. See "Management -- Summary of Compensation" and "-- Stock Based Plans."

Priceline.com received a loan in the amount of \$1.0 million on July 14, 1998 from Mr. Michael Loeb, a relative of Mr. Marshall Loeb, who is a director of the company, and a loan in the amount of \$500,000 on July 17, 1998 from Mr. Francis. The interest rate on each of the loans was 10%. As of the date of this prospectus, both of the loans have been repaid.

Priceline.com has granted registration rights to certain stockholders and warrant holders. See "Description of Capital Stock -- Registration Rights."

In February 1999, priceline.com made a payment of \$850,000 to Allen & Company, Incorporated for financial advisory services. Ms. Peretsman, who is a director of priceline.com, is a director and stockholder of Allen & Company.

Mr. Richard S. Braddock invested as a limited partner of an affiliate of General Atlantic from August 1996 to December 31, 1998 and served as a special advisor to General Atlantic from September 1996 to August 1997. Mr. Braddock, however, did not participate in any of the investments by affiliates of General Atlantic in priceline.com.

Messrs. Richard S. Braddock and William E. Ford are members of the board of directors of E\*TRADE Group, Inc., which has a co-marketing agreement with priceline.com to establish an adaptive marketing program under which E\*TRADE compensates priceline.com for offering priceline.com customers the opportunity to open an account with E\*TRADE while visiting or making an offer on the priceline.com Web site. See "Business -- Strategic Alliances -- Adaptive Marketing Alliances."

Priceline.com offers its magazine subscription promotion pursuant to a revenue sharing arrangement with NewSub Services, Inc., a direct marketing firm that is an affiliate of Mr. Jay S. Walker. Under this arrangement, priceline.com shares in a percentage of the revenues generated upon the conversion of priceline.com generated subscriptions to annual subscriptions after a six month free trial period. Affiliates of General Atlantic have invested approximately \$59.3 million in NewSub Services.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information known to priceline.com with respect to beneficial ownership of priceline.com's common stock as of March 17, 1999 by (1) each stockholder known by priceline.com to be the beneficial owner of more than 5% of priceline.com's common stock; (2) each director of priceline.com; (3) priceline.com's Chief Executive Officer and each of its other four most highly compensated executive officers; and (4) all executive officers and directors as a group.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (A)		SHARES BENEFICIALLY OWNED AFTER OFFERING (A)	
	NUMBER	PERCENT	NUMBER	PERCENT
Jay S. Walker(b).....	62,570,874	46.8%	62,570,874	43.6%
Richard S. Braddock(c).....	14,578,125	10.8	14,578,125	10.1
Jesse M. Fink(d).....	4,875,000	3.6	4,875,000	3.4
N. J. Nicholas, Jr.(e).....	3,906,250	2.9	3,906,250	2.7
Timothy G. Brier(f).....	2,437,500	1.8	2,437,500	1.7
Paul E. Francis(g).....	1,763,470	1.3	1,763,470	1.2
Paul A. Allaire(h).....	37,500	*	37,500	*
Ralph M. Bahna(i).....	343,750	*	343,750	*
Paul J. Blackney(j).....	139,008	*	139,008	*
William E. Ford(k).....	26,293,855	19.9	26,293,855	18.5
Marshall Loeb(l).....	31,250	*	31,250	*
Nancy B. Peretsman(m).....	2,906,250	2.2	2,906,250	2.0
General Atlantic Partners, LLC(k).....	26,293,855	19.9	26,293,855	18.5
Vulcan Ventures Incorporated(n).....	9,375,000	7.1	9,375,000	6.5
Walker Digital Corporation(o).....	62,570,874	46.8	62,570,874	43.6
All directors and executive officers as a group (14 persons) (b), (c), (d), (e), (f), (g), (h), (k), (m), (p).....	118,165,176	84.8%	118,165,176	79.2%

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\* Represents beneficial ownership of less than one percent.

- (a) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock options or warrants that are currently exercisable or exercisable within 60 days of March 17, 1999 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (b) Includes 7,520,833 shares held by Walker Digital Corporation, of which Mr. Walker is Founder, Chairman and the controlling stockholder, and 5,500,000 shares held by The Jay Walker Irrevocable Credit Trust. Also includes options outstanding to purchase 1,250,000 shares which are vested but not exercisable until expiration of the lock-up period. Excludes 265,000 shares subject to options that are not vested or exercisable within 60 days of March 17, 1999. Mr. Walker intends to pledge a portion of his shares of common stock to a third party lender as security for a loan.
- (c) Includes 5,000,000 shares held by Richard S. Braddock as Trustee of The Richard S. Braddock 1999 Annuity Trust and includes options outstanding to purchase 2,500,000 shares which will vest on consummation of this offering but are not exercisable until expiration of the lock-up periods. Includes options to purchase 750,000 shares that are currently exercisable for shares owned by Mr. Walker. Excludes 3,750,000 shares subject to options that will vest on the earlier to occur of (1) priceline.com having a public market capitalization of \$750.0 million for five consecutive trading days; (2) priceline.com having pre-tax operating income of \$30.0 million or more over a twelve-month period occurring over four consecutive fiscal quarters; and (3) August 15, 2007.
- (d) Includes 875,000 shares held by The Jesse Fink 1998 Grantor Retained Annuity Trust and options outstanding to purchase 1,500,000 shares which are vested but not exercisable until the expiration of the lock-up period. Excludes 943,750 shares subject to options that are not vested or exercisable within 60 days of March 17, 1999.

(e) Includes 3,125,000 shares held by Gore Creek Trust as to which Mr. Nicholas disclaims beneficial ownership. Includes options held by Gore Creek Trust to purchase 750,000 shares that are currently exercisable for shares owned by Mr. Walker as to which Mr. Nicholas disclaims beneficial ownership. Also includes options outstanding to purchase 31,250 shares which are vested but not exercisable until expiration of the lock-up period.

- (f) Includes 500,000 shares held by The Tim Brier 1998 Grantor Annuity Trust and 7,500 shares held by immediate family members of Mr. Brier. Includes options outstanding to purchase 937,500 shares which are vested but not exercisable until expiration of the lock-up period. Excludes 1,065,625 shares subject to options that are not vested or exercisable within 60 days of March 17, 1999.
- (g) Includes: (1) 678,125 shares held by The Paul E. Francis 1998 Trust, dated April 1, 1998; (2) 15,625 shares held by The Paul E. Francis 1998 Trust, dated December 2, 1998; (3) 15,625 shares held by The Paul E. Francis 1999 Trust, dated February 26, 1999; and (4) 125,000 shares held by The Paul E. Francis 1999 Annuity Trust. Includes options outstanding to purchase 375,000 shares which are vested but not exercisable until expiration of the lock-up period. Excludes 660,000 shares subject to options that are not vested or exercisable within 60 days of March 17, 1999.
- (h) Includes options outstanding to purchase 37,500 shares which are vested but not exercisable until expiration of the lock-up period. Excludes shares to be acquired under this offering.
- (i) Includes options outstanding to purchase 31,250 shares which are vested but not exercisable until expiration of the lock-up period.
- (j) Includes options outstanding to purchase 31,250 shares which are vested but not exercisable until expiration of the lock-up period.
- (k) Includes the following securities held by various General Atlantic entities: (1) 2,854,875 shares of common stock; (2) 17,288,684 shares of Series A convertible preferred stock, which will be converted (subject to anti-dilution adjustment) into 21,610,855 shares of common stock upon consummation of the offering; and (3) 1,796,875 shares of Series B convertible preferred stock, which will be converted (subject to anti-dilution adjustment) into an equal number of shares of common stock upon consummation of the offering. In addition, includes options outstanding to purchase 31,250 shares which are vested but not exercisable until expiration of the lock-up period, which options are held by Mr. William E. Ford. Mr. Ford, a director of priceline.com, is a managing member of General Atlantic Partners, LLC and a general partner of certain General Atlantic entities. Mr. Ford disclaims beneficial ownership of the shares referred to in clauses (1), (2) and (3) above, except to the extent of his pecuniary interest therein. General Atlantic disclaims beneficial ownership of the options referred to in clause (4) above. The address of General Atlantic is 3 Pickwick Plaza, Greenwich, Connecticut 06830.
- (l) Comprises options outstanding to purchase 31,250 shares which are vested but not exercisable until expiration of the lock-up period and which are held by Mr. Loeb's daughter and to which Mr. Loeb disclaims beneficial ownership.
- (m) Includes the following securities held by Allen & Company Incorporated on its own behalf and on behalf of certain of its officers, directors and employees: (1) 1,000,000 shares of common stock; and (2) 275,000 shares of Series B convertible preferred stock that are convertible into 343,750 shares of common stock upon the consummation of the offering. Ms. Peretsman, who is a Managing Director and Executive Vice President of Allen & Company Incorporated, disclaims beneficial ownership in the shares referred to in clauses (1) and (2) above, except to the extent of her pecuniary interest therein. Includes options outstanding to purchase 31,250 shares which are vested but not exercisable until expiration of the lock-up period and are held by members of Ms. Peretsman's family and to which Ms. Peretsman disclaims beneficial ownership. Includes options to purchase 571,875 shares that are exercisable for shares owned by Mr. Walker.
- (n) Comprises 7,500,000 shares of Series B convertible preferred stock, which will be converted into 9,375,000 shares of common stock upon consummation of the offering. Excludes 156,250 shares held by an officer and director of Vulcan Ventures Incorporated. The address of Vulcan Ventures Incorporated is 110 110th Avenue N.E., Bellevue, Washington 98004-5840.
- (o) Includes 48,300,041 shares held by Mr. Jay S. Walker, Walker Digital's Founder, Chairman and controlling stockholder, and 5,500,000 shares held by The Jay Walker Irrevocable Credit Trust. Also includes options outstanding to purchase 1,250,000 shares which are vested but not exercisable until expiration of the lock-up period, which options are held by Mr. Walker.

Excludes 265,000 shares subject to options held by Mr. Walker that are not vested or exercisable within 60 days of March 17, 1999. Mr. Walker intends to pledge a portion of his shares of common stock to a third party lender as security for a loan. The address of Walker Digital Corporation is Five High Ridge Park, Stamford, Connecticut 06905.

- (p) Includes options outstanding to purchase 7,141,668 shares, which are either (1) vested but not exercisable until expiration of the lock-up period or (2) will vest on the consummation of this offering but are not exercisable until expiration of the lock-up. Excludes 7,705,210 shares subject to options that are not vested or exercisable within 60 days of March 17, 1999. The address of all directors and executive officers is Five High Ridge Park, Stamford, Connecticut 06905.

## DESCRIPTION OF CAPITAL STOCK

Immediately following the consummation of this offering, the authorized capital stock of priceline.com will consist of 1,000,000,000 shares of common stock, par value \$0.008 per share, and 150,000,000 shares of preferred stock, par value \$0.01 per share, of priceline.com. Upon completion of this offering, there will be 142,320,430 outstanding shares of common stock, outstanding options to purchase 23,689,438 shares of common stock and outstanding warrants to purchase 20,806,903 shares of common stock.

### COMMON STOCK

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as the board of directors may from time to time determine. Each stockholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not provided for in the priceline.com's certificate of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption. Upon the occurrence of a liquidation, dissolution or winding-up, the holders of shares of common stock would be entitled to share ratably in the distribution of all of the company's assets remaining available for distribution after satisfaction of all its liabilities and the payment of the liquidation preference of any outstanding preferred stock. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

### PREFERRED STOCK

The board of directors has the authority, within the limitations and restrictions stated in the certificate of incorporation, to provide by resolution for the issuance of shares of preferred stock, in one or more classes or series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or the designation of such series. The issuance of preferred stock could have the effect of decreasing the market price of the common stock and could adversely affect the voting and other rights of the holders of common stock. See "Risk Factors -- Anti-Takeover Provisions Affecting Us Could Prevent or Delay a Change of Control."

### OPTIONS

As of March 17, 1999, (1) options to purchase a total of 23,689,438 shares of common stock were outstanding; and (2) up to 9,560,562 additional shares of common stock may be subject to options granted in the future under the 1997 Omnibus Plan. As of March 17, 1999, no options to purchase shares of common stock were granted under the 1999 Omnibus Plan. All of the options contain standard anti-dilution provisions. See "Management -- Priceline.com Incorporated 1997 Omnibus Plan," "-- Priceline.com Incorporated 1999 Omnibus Plan" and "-- Summary of Compensation."

### WARRANTS

As of March 17, 1999, priceline.com had the following outstanding warrants to purchase shares of common stock: (1) a warrant to purchase up to 18,619,403 shares of common stock at an exercise price of approximately \$0.93 per share that is held by Delta; and (2) warrants to purchase up to an aggregate of 937,500 shares of common stock at an exercise price of \$3.20 per share and 1,250,000 shares of common stock at an exercise price of \$6.40 per share, that are held by various airlines. All of the warrants contain standard anti-dilution provisions. See "Business -- Strategic Alliances."



## REGISTRATION RIGHTS

As of the completion of this offering, the holders of an aggregate of 144,256,702 shares of common stock or securities convertible into common stock will be entitled to certain registration rights. These rights are provided under the terms of a registration rights agreement between priceline.com and the holders of the registrable securities, who include Mr. Braddock, Mr. Walker, General Atlantic, Vulcan Ventures Incorporated, all other holders of priceline.com's preferred stock and several airlines. This agreement provides demand registration rights to the holders of substantially all of the registrable securities. In addition, the holders of all of the registrable securities are entitled under the agreement, subject to certain limitations, to require priceline.com to include their registrable securities in future registration statements the company files. Registration of shares of common stock pursuant to the rights granted in this agreement will result in such shares becoming freely tradeable without restriction under the Securities Act of 1933. However, the agreement provides priceline.com the right to delay any registration request until 90 days after the effective date of this prospectus. All registration expenses incurred in connection with the above registrations will be borne by priceline.com.

## TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the common stock is ChaseMellon Shareholder Services, L.L.C.

## LISTING

Priceline.com has applied for quotation of the common stock on the Nasdaq National Market under the trading symbol "PCLN."

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES  
TO NON-U.S. INVESTORS

INTRODUCTION

The following is a summary of certain United States federal tax consequences to non-U.S. investors of owning common stock. In this summary, "non-U.S. investor" means a person or entity other than:

- a citizen or resident of the United States;
- a corporation, partnership or other entity created or organized in or under the laws of the United States or of any state;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, the administration of which is subject to the primary supervision of a United States court and the control of all of the substantial decisions of which is within the authority of one or more United States persons.

This summary does not address all of the federal tax considerations that may be relevant to a non-U.S. investor in light of its particular circumstances or to non-U.S. investors that may be subject to special treatment under federal tax laws. Also, this summary does not discuss any aspects of state, local or foreign taxation. This summary is based on current provisions of the Internal Revenue Code, Treasury regulations, judicial opinions, published positions of the IRS and other applicable authorities. These authorities are all subject to change, possibly with retroactive effect. Each prospective non-U.S. investor should consult its tax advisor with respect to the tax consequences of investing in the common stock.

DIVIDENDS

Dividends paid to a non-U.S. investor generally will be subject to withholding of federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, if the dividend is effectively connected with the conduct of a trade or business of the non-U.S. investor within the United States, the dividend will instead be taxed at ordinary federal income tax rates on a net income basis. Further, if the non-U.S. investor is a corporation, this effectively connected dividend income may also be subject to an additional branch profits tax.

SALE OR OTHER DISPOSITION OF COMMON STOCK

A non-U.S. investor generally will not be subject to federal income tax on any gain recognized on the sale or other disposition of common stock, except in the following circumstances:

- (1) The gain will be subject to federal income tax if it is effectively connected with a trade or business of the non-U.S. investor within the United States.
- (2) The gain will be subject to federal income tax if the non-U.S. investor is an individual who holds the common stock as a capital asset, is present in the United States for 183 or more days in the taxable year of the sale or other disposition, and either the individual has a "tax home" in the United States for federal income tax purposes or the gain is attributable to an office or other fixed place of business maintained by the individual in the United States.
- (3) The gain may be subject to federal income tax pursuant to federal income tax laws applicable to certain expatriates.
- (4) The gain may be subject to federal income tax if priceline.com is or has been during certain periods a "United States real property holding corporation" and the non-U.S. investor held, at any time during the five-year period ending on the date of disposition (or, if shorter, the non-U.S.

investor's holding period), more than 5 percent of the outstanding common stock. Priceline.com believes that it will not constitute a United States real property holding corporation immediately after the offering and does not expect to become a United States real property holding corporation; however, no assurance can be given in this regard.

#### BACKUP WITHHOLDING AND INFORMATION REPORTING

**DIVIDENDS.** United States backup withholding tax generally will not apply to dividends paid to a non-U.S. investor at an address outside the United States. Priceline.com must report annually to the IRS and to each non-U.S. investor the amount of dividends paid to such investor and the amount, if any, of tax withheld with respect to such dividends. This information may also be made available to the tax authorities in the non-U.S. investor's country of residence.

**SALE THROUGH A U.S. OFFICE OF A BROKER.** Upon the sale or other disposition of common stock by a non-U.S. investor to or through a United States office of a broker, the broker must backup withhold at a rate of 31% and report the sale to the IRS, unless the investor certifies its foreign status under penalties of perjury or otherwise establishes an exemption from backup withholding.

**SALE THROUGH A FOREIGN OFFICE OF A BROKER.** Upon the sale or other disposition of common stock by a non-U.S. investor to or through a foreign office of a United States broker or a foreign broker with certain types of relationships with the United States, the broker is not required to backup withhold. However, the broker must report the sale or other disposition to the IRS unless the broker has documentary evidence in its files that the seller is a non-U.S. investor and certain other conditions are met, or the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are generally allowable as a refund or credit against the non-U.S. investor's federal income tax liability, if any, provided, that the required information is furnished to the IRS.

Final United States Treasury regulations, effective for payments made after December 31, 1999, may affect the procedures to be followed by a non-U.S. investor in establishing such investor's foreign status for purposes of the withholding, backup withholding and information reporting rules described in this "Certain United States Federal Tax Consequences to Non-U.S. Investors" section. Prospective non-U.S. investors should consult their tax advisors concerning such regulations.

#### FEDERAL ESTATE TAXES

Common stock owned or treated as owned by an individual who is not a citizen or a "resident," which is specially defined for federal estate tax purposes, of the United States at the time of death, will be included in such individual's gross estate for federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for the common stock, and there can be no assurance that a significant public market for the common stock will develop or be sustained after this offering. Future sales of substantial amounts of common stock, including shares issued upon exercise of outstanding options and warrants, in the public market after this offering could adversely affect market prices prevailing from time to time and could impair priceline.com's ability to raise capital through the sale of its equity securities. Sales of substantial amounts of common stock of priceline.com in the public market could adversely affect the prevailing market price and the ability of priceline.com to raise equity capital in the future.

Upon completion of this offering, priceline.com will have outstanding 142,320,430 shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding warrants and options, which as of March 17, 1999 were vested for an aggregate of 10,580,521 shares of common stock and will vest for an additional 54,056,903 shares of common stock in the future. Of these shares, the 10,000,000 shares (11,500,000 shares if the underwriters exercise their over-allotment option in full) of common stock sold in this offering will be freely tradable without restriction under the Securities Act unless purchased by "affiliates" of priceline.com as that term is defined in Rule 144 under the Securities Act.

Each of priceline.com and the directors, executive officers and substantially all stockholders of priceline.com has agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, it will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, file a registration statement, in the case of priceline.com, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock;
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise; or
- file a registration statement, in the case of priceline.com, other than a registration statement on Form S-8 covering shares of common stock subject to outstanding options under the 1997 Omnibus Plan or shares of common stock subject to options to be issued under the 1999 Omnibus Plan.

The restrictions described in this paragraph do not apply to certain circumstances, including:

- the sale of the shares to the underwriters in this offering;
- the issuance of restricted stock awards under priceline.com's existing employee benefit plans or shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus;
- the grant of options to certain officers, directors, employees or consultants provided such options are not exercisable prior to the end of the lock-up period;
- the issuance of warrants (or shares of capital stock upon the exercise of such warrants) to suppliers or other entities providing products or services to priceline.com in connection with entering into certain supply, adaptive marketing or other similar arrangements, provided that the recipients of such warrants or shares agree to be bound by the foregoing provisions; or
- other transfers of any shares of common stock by certain of the foregoing persons to any associate, as such term is defined in Rule 12b-2 under the Exchange Act, of such person which agrees to be bound by the foregoing provisions.

In addition, the shareholders have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, neither it nor any of its affiliates will, during the period ending 180 days after the date of the prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock. Beginning 180 days after the date of this prospectus, all such shares will be eligible for sale in the public market, subject to certain timing, manner of sale and volume limitations pursuant to Rule 144.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person, or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year, including the holding period of any prior owner except an affiliate, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of (1) 1% of the number of shares of common stock then outstanding, which will equal approximately 1,400,000 shares immediately after this offering, or (2) the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 also are subject to certain manner of sale provisions and notice requirements and to the availability of current public information about priceline.com. Under Rule 144(k), a person who is not deemed to have been an affiliate of priceline.com at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner except an affiliate, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701 permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144. Any employee, officer or director of or consultant to priceline.com who purchased his or her shares pursuant to a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling such shares.

Following consummation of this offering, priceline.com intends to file a registration statement on Form S-8 under the Securities Act covering shares of common stock subject to outstanding options under the 1997 Omnibus Plan and 9,375,000 shares of common stock reserved for issuance under the 1999 Omnibus Plan. Based on the number of shares subject to outstanding options at March 17, 1999 and currently reserved for issuance under such plan, such registration statement would cover approximately 33,250,000 shares issuable on exercise of the options of which 10,580,521 options have vested as of such date. Such registration statement will automatically become effective upon filing. Accordingly, subject to the exercise of such options, shares registered under such registration statement will be available for sale in the open market immediately after the 180-day lock-up agreements expire. Also beginning 90 days after the date of this offering, certain holders of shares of common stock will be entitled to certain rights with respect to registration of such shares of common stock for offer and sale to the public. However, under certain lock-up agreements with the underwriters, such rights will not be able to be exercised until 180 days after the date of this prospectus. See "Description of Capital Stock -- Registration Rights."

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated 1999 (the "underwriting agreement"), the underwriters named below for whom Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BancBoston Robertson Stephens Inc. and Donaldson, Lufkin & Jenrette Securities Corporation are acting as representatives, have severally agreed to purchase, and priceline.com has agreed to sell to them, the respective number of shares of common stock set forth opposite the names of such underwriters below:

NAME	NUMBER OF SHARES
Morgan Stanley & Co. Incorporated.....	
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	
BancBoston Robertson Stephens Inc. ....	
Donaldson, Lufkin & Jenrette Securities Corporation.....	
Total.....	10,000,000

The underwriters are offering the shares of common stock subject to their acceptance of the shares from priceline.com and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered hereby are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered hereby, other than those covered by the over-allotment option described below, if any are taken.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price that represents a concession not in excess of \$ per share under the public offering price. Any underwriter may allow, and such dealers may reallocate, a concession not in excess of \$ per share to other underwriters or to certain other dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

Pursuant to the underwriting agreement, priceline.com has granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,500,000 additional shares of common stock at the public offering price set forth on the cover page hereof, less underwriting discounts and commissions. The underwriters may exercise such option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered hereby. To the extent such option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares of common stock as the number set forth next to such underwriter's name in the preceding table bears to the total number of shares of common stock set forth next to the names of all underwriters in the preceding table. If the underwriters exercise the over-allotment option in full, the total public offering price will be \$ , the total underwriting discounts and commissions will be \$ and the total proceeds to priceline.com will be \$ .

The underwriters have informed priceline.com that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

At the request of priceline.com, the underwriters have reserved up to 850,000 shares of common stock offered hereby for sale at the initial public offering price to certain employees of priceline.com and to certain other persons. The number of shares available for sale to the general public will be reduced to the extent that such persons purchase such reserved shares. Any reserved shares not so purchased will be

offered by the underwriters to the general public on the same basis as the other shares of common stock offered hereby.

Priceline.com has applied for quotation of the common stock on the Nasdaq National Market under the symbol "PCLN."

Each of priceline.com and the directors, executive officers and certain other securityholders of priceline.com has agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, it will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock;
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise; or
- file a registration statement (in the case of priceline.com) other than a registration statement on Form S-8 covering shares of common stock subject to outstanding options under the 1997 Omnibus Plan or shares of common stock subject to options to be issued under the 1999 Omnibus Plan.

The restrictions described in the previous paragraph do not apply to certain circumstances, including:

- the sale of the shares to the underwriters;
- the issuance by priceline.com of restricted stock awards under priceline.com's existing employee benefit plans or of shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus;
- the grant of options to certain officers, directors, employees or consultants provided such options are not exercisable prior to the end of the lock-up period;
- the issuance of warrants (or shares of capital stock upon the exercise of such warrants) to suppliers or other entities providing products or services to priceline.com in connection with entering into certain supply, adaptive marketing or other similar arrangements, provided that the recipient of such warrants or shares agrees to be bound by the foregoing provisions; or
- the sale or other transfer of any shares of common stock by certain of the foregoing persons to any associate (as such term is defined in Rule 12b-2 under the Exchange Act) if such person which agrees to be bound by the foregoing provisions.

In addition, the stockholders of priceline.com have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, neither it nor any of its affiliates will, during the period ending 180 days after the date of the prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the common stock for their own account. In addition, to cover over-allotments or to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering, if the syndicate repurchases previously distributed common stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these

activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Priceline.com and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

E\*TRADE has entered into a co-marketing agreement with priceline.com to establish an adaptive marketing program under which E\*TRADE will compensate priceline.com for offering priceline.com customers the opportunity to open an account with E\*TRADE while visiting or making an offer on the priceline.com Web site. See "Business--Strategic Alliances--Adaptive Marketing Alliances." As the first phase of this program, priceline.com and E\*TRADE have established the Customer Affinity Share Purchase Program under which customers of priceline.com who are also account holders at E\*TRADE will receive priority in the allocation by E\*TRADE of priceline.com shares in this offering, subject to a maximum allocation of 100 shares per customer account and limited by the total number of shares made available to E\*TRADE. In order to be eligible to receive priority allocation of priceline.com shares, priceline.com customers who are not already E\*TRADE customers must open an account with E\*TRADE, subject to normal eligibility criteria and must submit timely indications of interest in accordance with E\*TRADE's normal procedures.

#### PRICING OF THE OFFERING

Prior to this offering, there has been no public market for the common stock. The initial public offering price will be determined by negotiations between priceline.com and the representatives. Among the factors to be considered in determining the initial public offering price will be the future prospects of priceline.com and its industry in general, sales, earnings and certain other financial and operating information of priceline.com in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to those of priceline.com. The estimated initial public offering price range set forth on the cover page of this prospectus is subject to change as a result of market conditions and other factors.

#### LEGAL MATTERS

The validity of the issuance of the shares of common stock offered hereby and certain other matters will be passed upon for priceline.com by Skadden, Arps, Slate, Meagher & Flom LLP and Melissa M. Taub, Esq., Senior Vice President, General Counsel and Secretary of priceline.com, and the validity of shares of common stock offered hereby will be passed upon for the underwriters by Davis Polk & Wardwell.

#### EXPERTS

The combined financial statements of priceline.com and Priceline Travel, Inc. as of December 31, 1997 and December 31, 1998 (restated) and for the period July 18, 1997 (Inception) to December 31, 1997 and for the year ended December 31, 1998 (restated) included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.



ADDITIONAL INFORMATION

Priceline.com has filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement and the exhibits thereto. For further information with respect to priceline.com and the common stock offered hereby, reference is made to the registration statement and the exhibits thereto. Statements contained in this prospectus regarding the contents of any contract or any other document to which reference is made are not necessarily complete, and, in each instance where a copy of such contract or other document has been filed as an exhibit to the registration statement, reference is made to the copy so filed, each such statement being qualified in all respects by such reference. A copy of the registration statement and the exhibits thereto may be inspected without charge at the Public Reference Room of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the Public Reference Section of the Commission upon the payment of the fees prescribed by the Commission. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains a Web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants, such as priceline.com, that file electronically with the Commission.

Priceline.com intends to provide its stockholders with annual reports containing combined financial statements audited by an independent accounting firm and quarterly reports containing unaudited combined financial data for the first three quarters of each year.

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COMBINED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1997 AND DECEMBER 31, 1998 AND FOR THE PERIOD JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997 AND THE YEAR ENDED DECEMBER 31, 1998 (As Restated):	
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The accompanying combined financial statements give effect to the completion of the 1.25:1 split of the Company's common stock which will take place on March , 1999. The following report is in the form which will be furnished by Deloitte & Touche LLP upon completion of the stock split of the Company's common stock described in Note 12 to the combined financial statements and assuming that from March 16, 1999 to the date of such completion no other material events have occurred that would affect the accompanying combined financial statements or required disclosure therein.

/s/ Deloitte & Touche LLP  
Stamford, Connecticut  
March 16, 1999

'INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of  
priceline.com Incorporated and Priceline Travel, Inc.

We have audited the accompanying combined balance sheets of priceline.com Incorporated and Priceline Travel, Inc. (collectively the "Company") as of December 31, 1997 and 1998 and the related combined statements of operations, changes in stockholders' equity and cash flows for the period July 18, 1997 (Inception) to December 31, 1997 and the year ended December 31, 1998. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1997 and 1998 and the results of their operations and their cash flows for the period July 18, 1997 to December 31, 1997 and the year ended December 31, 1998 in conformity with generally accepted accounting principles.

As discussed in Note 13, the accompanying 1998 financial statements have been restated.

Stamford, Connecticut  
February 10, 1999

(March , 1999 as to Note 12 and March 16, 1999 as to Note 13)'

## COMBINED BALANCE SHEETS

AS OF DECEMBER 31, 1997 AND 1998

	1997	1998
	-----	-----
		AS RESTATED SEE NOTE 13
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 16,459	\$ 53,593,026
Restricted bank deposit.....	--	511,589
Accounts receivable, net of allowance for uncollectible accounts of \$290,823 at December 31, 1998.....	--	4,176,980
Note receivable from stockholder.....	250,000	--
Prepaid expenses and other current assets.....	--	1,921,953
	-----	-----
Total current assets.....	266,459	60,203,548
PROPERTY AND EQUIPMENT--Net.....	1,180,119	5,926,877
RESTRICTED BANK CERTIFICATE OF DEPOSIT.....	--	168,750
OTHER ASSETS.....	2,686	273,310
	-----	-----
TOTAL ASSETS.....	\$ 1,449,264	\$ 66,572,485
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 899,052	\$ 5,268,430
Related party payable.....	1,104,391	32,447
Accrued professional fees.....	266,614	1,766,216
Accrued marketing fees.....	--	1,225,315
Accrued telecommunications expense.....	24,354	776,303
Other accrued expenses.....	36,595	490,807
Current portion of capital lease obligations.....	21,906	25,033
Other current liabilities.....	302,363	696,997
	-----	-----
Total current liabilities.....	2,655,275	10,281,548
LONG-TERM DEBT--net.....	--	989,018
CAPITAL LEASE OBLIGATIONS--net of current portion.....	51,108	26,074
	-----	-----
Total liabilities.....	2,706,383	11,296,640
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY (DEFICIENCY)		
Preferred stock.....	--	311,262
Common stock.....	416,358	748,802
Additional paid-in capital.....	840,005	171,155,186
Accumulated deficit.....	(2,513,482)	(116,939,405)
	-----	-----
Total stockholders' equity (deficiency).....	(1,257,119)	55,275,845
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$ 1,449,264	\$ 66,572,485
	-----	-----

See notes to combined financial statements.

COMBINED STATEMENTS OF OPERATIONS

FOR THE PERIOD JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997 AND THE

YEAR ENDED DECEMBER 31, 1998

	JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998  AS RESTATED SEE NOTE 13
	-----	-----
Revenues.....	\$ --	\$ 35,236,860
Cost of revenues:		
Product costs.....	--	33,495,745
Supplier warrant costs.....	--	3,029,014
	-----	-----
Total cost of revenues.....	--	36,524,759
	-----	-----
Gross profit (loss).....	--	(1,287,899)
Expenses:		
Supplier start-up warrant costs.....	--	57,978,678
Sales and marketing.....	441,479	24,388,061
General and administrative.....	1,011,600	18,004,585
Systems and business development.....	1,060,091	11,131,650
	-----	-----
Total expenses.....	2,513,170	111,502,974
	-----	-----
Operating loss.....	(2,513,170)	(112,790,873)
Interest income (expense), net.....	(312)	548,374
	-----	-----
Net loss.....	(2,513,482)	(112,242,499)
Accretion on preferred stock.....	--	(2,183,424)
	-----	-----
Net loss applicable to common shareholders.....	\$ (2,513,482)	\$ (114,425,923)
	-----	-----
Basic and diluted loss per common share.....	\$ (0.05)	\$ (1.41)
	-----	-----
Weighted average common shares outstanding.....	50,833,756	81,231,425

See notes to combined financial statements.

PRICELINE.COM INCORPORATED AND PRICELINE TRAVEL, INC.

COMBINED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE PERIOD JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997 AND THE

YEAR ENDED DECEMBER 31, 1998

	PRICELINE.COM INCORPORATED					PRICELINE TRAVEL, INC.	
	PREFERRED STOCK SHARES	STOCK AMOUNT	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	COMMON SHARES	STOCK AMOUNT
Issuance of common stock and common stock subscriptions.....	--	--	51,669,720	\$ 413,358	\$ 836,642	3,000	\$ 3,000
Net loss applicable to common shareholders.....	--	--	--	--	--	--	--
Balance, December 31, 1997.....	--	--	51,669,720	413,358	836,642	3,000	3,000
Issuance of common stock and common stock subscriptions.....	--	--	41,555,480	332,444	32,662,919	--	--
Issuance of Series A convertible preferred stock.....	17,288,684	\$ 172,887	--	--	19,827,113	--	--
Issuance of Series B convertible preferred stock.....	13,837,500	138,375	--	--	54,276,175	--	--
Accretion on preferred stock as restated...	--	--	--	--	2,183,424	--	--
Issuance of options to purchase common stock.....	--	--	--	--	245,063	--	--
Issuance of warrants to purchase common stock.....	--	--	--	--	61,120,487	--	--
Net loss as restated.....	--	--	--	--	--	--	--
Balance, December 31, 1998 as restated....	31,126,184	\$ 311,262	93,225,200	\$ 745,802	\$171,151,823	3,000	\$ 3,000

COMBINED  
 ADDITIONAL PAID-IN ACCUMULATED  
 CAPITAL DEFICIT TOTAL

Issuance of common stock and common stock subscriptions.....	\$3,363	--	\$ 1,256,363
Net loss applicable to common shareholders.....	--	\$ (2,513,482)	(2,513,482)
Balance, December 31, 1997.....	3,363	(2,513,482)	(1,257,119)
Issuance of common stock and common stock subscriptions.....	--	--	32,995,363
Issuance of Series A convertible preferred stock.....	--	--	20,000,000
Issuance of Series B convertible preferred stock.....	--	--	54,414,550
Accretion on preferred stock as restated....	(2,183,424)	--	--
Issuance of options to purchase common stock.....	--	--	245,063
Issuance of warrants to purchase common stock.....	--	--	61,120,487
Net loss as restated.....	(112,242,499)	(112,242,499)	(112,242,499)

Balance, December 31, -----  
1998 as restated....\$3,363 \$(116,939,405) \$ 55,275,845  
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See notes to combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS

FOR THE PERIOD JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997  
AND THE YEAR ENDED DECEMBER 31, 1998

	JULY 18, 1997 (INCEPTION) TO DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998
	-----	-----
		AS RESTATED SEE NOTE 13
OPERATING ACTIVITIES:		
Net loss.....	\$ (2,513,482)	\$ (112,242,499)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....	211,996	1,860,096
Provision for uncollectible accounts.....	--	580,448
Equity based compensation.....	--	67,865,550
Changes in assets and liabilities:		
Accounts receivable.....	--	(4,757,428)
Prepaid expenses and other current assets.....	--	(1,921,953)
Restricted bank deposit and bank certificate of deposit.....	--	(680,339)
Accounts payable and accrued expenses.....	1,226,615	8,300,456
Other.....	299,677	113,030
	-----	-----
Net cash used in operating activities.....	(775,194)	(40,882,639)
	-----	-----
INVESTING ACTIVITIES--Additions to property and equipment.....	(1,317,404)	(6,606,854)
	-----	-----
FINANCING ACTIVITIES:		
Related party payable.....	1,104,391	(1,071,944)
Issuance of long-term debt.....	--	1,000,000
Principal payments under capital lease obligations.....	(1,697)	(21,907)
Issuance of common stock and subscription units.....	1,006,363	26,495,361
Payment received on stockholder note.....	--	250,000
Issuance of Series A convertible preferred stock.....	--	20,000,000
Issuance of Series B convertible preferred stock.....	--	54,414,550
	-----	-----
Net cash provided by financing activities.....	2,109,057	101,066,060
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	16,459	53,576,567
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	--	16,459
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 16,459	\$ 53,593,026
	-----	-----
SUPPLEMENTAL CASH FLOW INFORMATION:		
Capital lease obligations.....	\$ 74,711	\$ --
Cash paid during the period for interest.....	836	60,681

See notes to combined financial statements.



## NOTES TO COMBINED FINANCIAL STATEMENTS

## 1. BUSINESS DESCRIPTION

Priceline.com ("priceline.com") has pioneered a unique new type of e-commerce known as a "demand collection system" that enables consumers to use the Internet to save money on a wide range of products and services while enabling sellers to generate incremental revenue. Using a simple and compelling consumer proposition--"name your price," priceline.com collects consumer demand, in the form of individual customer offers guaranteed by a credit card, for a particular product or service at a price set by the customer. Priceline.com then either communicates that demand directly to participating sellers or accesses participating sellers' private databases to determine whether the customer's offer can be fulfilled on the basis of the pricing information and rules established by the sellers. Consumers agree to hold their offers open for a specified period of time and once fulfilled, offers cannot be canceled. By requiring consumers to be flexible with respect to brands, sellers and/or product features, priceline.com enables sellers to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures. Priceline.com commenced its service on April 6, 1998 with the sale of leisure airline tickets. During 1997, the Company had been in the development stage. Priceline.com's services were expanded to include the sale of new automobiles, on a test basis, in July 1998, hotel room reservations in October 1998, and home mortgages in January 1999.

Priceline.com was founded as a limited liability company ("LLC") in July 1997 and converted to a corporation in July 1998. All LLC units and options and warrants to purchase units, were converted in July 1998 to common stock of priceline.com ("Common Stock") and options and warrants to purchase Common Stock. For presentation purposes all such LLC units, and options and warrants to purchase units are presented as Common Stock or options and warrants to purchase Common Stock. Priceline Travel, Inc. ("Priceline Travel") holds the travel agency license used to effect airline ticket sales. Priceline Travel is wholly owned by the founding stockholder and Vice-Chairman of priceline.com. Priceline.com has a call option to purchase Priceline Travel for nominal consideration. Priceline.com and Priceline Travel are entities under common control, accordingly, the financial statements of the two companies are presented on a combined basis. Priceline Travel will merge into priceline.com during the first quarter of 1999. Priceline.com and Priceline Travel are referred to, collectively, as the Company.

Walker Digital Corporation ("Walker Digital"), a research and development company, developed the priceline.com service and the business model and related intellectual property rights underlying the priceline.com service, the rights for which were transferred to the Company on July 18, 1997. Walker Digital had no operations and no revenues related to the assets transferred to priceline.com. Walker Digital was founded and is controlled by the founding stockholder and Vice Chairman of priceline.com. Walker Digital has also been providing the Company with a variety of services including subleasing office facilities to the Company on a month to month basis. Charges to the Company for such services aggregated \$19,813 and \$706,160 during the period July 18, 1997 to December 31, 1997 and the year ended December 31, 1998, respectively. Such amounts are included in general and administrative expense. In addition, the Company charged Walker Digital \$95,874 and \$384,831 for the period July 18, 1997 to December 31, 1997 and the year ended December 31, 1998, respectively, for shared expenses. Such reimbursement has been offset against general and administrative expenses in the accompanying combined statements of operations. Several of the Company's executive officers and other key employees are also officers, employees and/or stockholders of Walker Digital.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF COMBINATION AND BASIS OF PRESENTATION--The combined financial statements for all periods presented include the financial statements of priceline.com and Priceline Travel. The combined financial

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

statements have been prepared in accordance with generally accepted accounting principles. All significant intercompany transactions have been eliminated.

**USE OF ESTIMATES**--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**--The Company's financial instruments, including cash and cash equivalents, restricted bank deposits, accounts receivable-net and accounts payable, are carried at cost which approximates their fair value because of the short-term maturity of these financial instruments. The carrying value of the capital lease obligations and long-term debt approximates fair value because the interest rates on these obligations are comparable to the interest rates that could have been obtained at the date of the balance sheet.

**CASH AND CASH EQUIVALENTS, RESTRICTED BANK DEPOSITS**--The Company invests excess cash primarily in money market accounts, certificates of deposits, and short-term commercial paper. All highly liquid instruments with an original maturity of three months or less are considered cash equivalents. Restricted bank deposits collateralize letters of credit issued in favor of certain airlines.

**NOTE RECEIVABLE FROM STOCKHOLDER**--Represents a note receivable related to the sale of common stock that was subsequently paid on January 9, 1998.

**PROPERTY AND EQUIPMENT**--Property and equipment are stated at historical cost. Depreciation and amortization of property and equipment is computed on a straight-line basis, generally over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. Capitalized software costs represent costs paid to third parties and are amortized on a straight-line basis over their estimated useful lives. Maintenance and repairs are charged directly to expense as incurred.

**INTANGIBLE ASSETS**--The Company acquired certain patent rights covering the core buyer-driven commerce system and the method and system for pricing and selling airline ticket options from a Walker Digital affiliate on July 18, 1997 in exchange for 6,895,834 shares of common stock. Since the transfer was between entities under common control, it was recorded at the historical cost of the asset transferred, which was zero.

**IMPAIRMENT OF LONG-LIVED ASSETS**--The Company evaluates the recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets.

**REVENUES AND COST OF REVENUES**--The manner in which revenues are recognized differs depending on the product or service sold through the priceline.com service. With respect to airline ticket or hotel reservation services, revenues are generated by transactions with customers who make offers to purchase airline tickets and hotel rooms supplied by participating sellers. All offers are guaranteed by a customer credit card. Credit cards are the only form of payment accepted by priceline.com. Revenues and related costs are recognized if, and when, the Company accepts the customer's offer and charges the customer's credit card. Because priceline.com is the merchant of record in these transactions, revenue for these services includes

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the amount billed to the customer, net of certain transportation taxes and fees. Airline and hotel revenues may be supplemented by fees that are paid to the Company by third parties in connection with adaptive marketing programs. With respect to automobile and mortgage services, fees or other payments payable by the seller and/or the customer are recognized as revenue. Because priceline.com acts as an intermediary between the customer and the seller in these transactions, revenue for these products and services is recorded at the amount of the fee received in connection with the transaction, and not on the value of the underlying transaction, when the transaction is completed. Automobile and mortgage services revenues may also include fees from third parties for adaptive marketing programs.

Revenues from adaptive marketing programs are earned when customers elect to increase their offering price, and thus the likelihood of a successful transaction, at no additional costs, by participating in a sponsor promotion. Priceline.com earns fee income from the corporate sponsor of each adaptive marketing program based primarily upon customer participation levels. During 1998, the Company generated approximately \$4,037,000 of revenues from adaptive marketing programs. All of these adaptive marketing revenues resulted from fees paid to the Company by Capital One Bank in connection with a credit card promotion--see Note 12.

Priceline.com expressly permits only credit cards as an acceptable form of payment from its consumers. Consequently, the Company believes that it does not have a significant risk of loss with respect to customer transactions. On rare occasions, the Company provides credit card refunds to individual customers to satisfy disputes and complaints. The Company accrues for expected credit card charge-backs and classifies the resulting expense as an addition to the allowance for doubtful accounts. The Company extends customary payment terms to corporate customers such as automobile dealers and adaptive marketing sponsors. The Company did not experience any uncollectible corporate accounts receivable in 1998.

Cost of revenues includes product costs and the pro rata amount of the Delta Warrant earned prior to the December 31, 1998 measurement date based on their performance through that date--see Note 6.

SUPPLIER START-UP WARRANT COSTS--Supplier start-up warrant costs includes the value of warrants issued to secure certain airline alliances and relationships including the value of the Delta Warrant net of the amount included in cost of revenues--see Note 6.

SALES AND MARKETING--Sales and marketing expenses are comprised primarily of costs of radio and newspaper advertising, costs of the third-party offer-taking call center, credit card processing fees, provisions for customer credit card charge-backs and compensation for the Company's sales and marketing personnel. All sales and marketing costs are expensed as incurred.

SYSTEMS AND BUSINESS DEVELOPMENT--Systems and business development expenses are comprised primarily of compensation to the Company's information systems and product development staff and payments to outside contractors, data communications and other expenses associated with operating the Company's Web site, depreciation on computer hardware and licensing fees for computer software. Such costs are expensed as incurred.

INTEREST INCOME (EXPENSE), NET--Interest income (expense), net includes interest income of \$523 and \$633,294 and interest expense of \$835 and \$84,920 for the period July 18, 1997 to December 31, 1997 and the year ended December 31, 1998, respectively.

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EQUITY-BASED COMPENSATION--The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of priceline.com's stock and the exercise price.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur.

INCOME TAXES--The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the temporary difference between the financial statement and tax basis of assets and liabilities using presently enacted tax rates in effect. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

During the period that priceline.com operated as an LLC, it was treated substantially as a partnership for tax purposes and, accordingly, the tax effect of its activities accrued to its members through July 1998.

NET LOSS PER SHARE--The Company computes net loss per share in accordance with SFAS No. 128, "Earnings Per Share" which requires dual presentation of basic earnings per share ("EPS") and diluted EPS.

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and potentially dilutive shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon conversion of the Series A and Series B Convertible Preferred Stock (using the if-converted method) and shares issuable upon the exercise of stock options and warrants (using the treasury stock method). At December 31, 1998, Series A and Series B Convertible Preferred Stock were convertible into 21,610,855 shares and 17,296,875 shares, respectively, and options and warrants to purchase 42,181,998 shares of Common Stock were outstanding. Outstanding convertible preferred stock, warrants and options could potentially dilute basic earnings per share in the future but have not been included in the computation of diluted net loss per share as the impact would have been antidilutive for the periods presented.

BUSINESS RISK--Business risks include the following:

Competition--The markets for the products and services offered on the priceline.com service are intensely competitive. The Company competes with both traditional distribution channels and online services. The Company currently or potentially competes with a variety of companies with respect to each product or services offered. The Company potentially faces competition from a number of large online

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

services that have expertise in developing online commerce and in facilitating Internet traffic. Many competitors have significant competitive advantages. For example, airlines, hotels and other suppliers also sell their products and services directly to consumers and have established Web sites. Internet directories, search engines and large traditional retailers have significantly greater operating histories, customer bases, technical expertise, brand recognition and/or online commerce experience than the Company. In addition, certain competitors may be able to devote significantly greater resources to furthering their business.

Dependence on Airline Industry and Certain Carriers--The Company's near term, and possibly long term, prospects are significantly dependent upon the sale of leisure airline tickets. Sales of leisure airline tickets and revenues derived from related adaptive marketing programs represented essentially all of the Company's revenues for the year ended December 31, 1998. Sales of airline tickets from the Company's three largest airline suppliers accounted for approximately 95% of airline ticket revenue for the year ended December 31, 1998. As a result, currently the Company is substantially dependent upon the continued participation of these three airlines in the priceline.com service in order to maintain and continue to grow its total airline ticket revenues. Significantly reducing the Company's dependence on the airlines is likely to take a long time and there can be no guarantee that the Company will succeed in reducing that dependence.

Risks Associated with Brand Development--The Company intends to continue to pursue an aggressive brand-enhancement strategy, which will include mass market and multimedia advertising, promotional programs and public relations activities. To increase awareness of the priceline.com brand and expand it to a wide range of products and services, the Company will need to continue to spend significant amounts on advertising and promotions. These expenditures may not result in a sufficient increase in revenues to cover such advertising and promotions expenses.

CONCENTRATION OF CREDIT RISK--Financial instruments which potentially subject the Company to concentrations of credit risk are principally bank deposits and accounts receivable. Cash and cash equivalents and restricted bank deposits are deposited with high credit quality financial institutions. Accounts receivable typically represent credit card purchases and are derived from the revenues earned from customers in the U.S. and are denominated in U.S. dollars. Accounts receivable balances are typically settled through customer credit cards and, as a result, the majority of accounts receivable are collected upon processing of credit card transactions. The Company maintains an allowance for uncollectible accounts based upon the expected collectibility of accounts receivable. During the year ended December 31, 1998, approximately 11% of revenues were generated from one vendor participating in an adaptive marketing program. As of December 31, 1998, amounts due from this vendor represented approximately 54% of accounts receivable.

COMPREHENSIVE INCOME--Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." Under SFAS 130 changes in net assets of an entity resulting from transactions and other events and circumstances from non-owner sources are reported in a financial statement for the period in which they are recognized. Because there were no such changes, adoption of SFAS 130 did not impact the combined financial statements of the Company.

SEGMENT REPORTING--Effective January 1, 1998, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards SFAS No 133 "Accounting for Derivative Instruments and Hedging Activities" was released. The statement requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the planned use of the derivative and the resulting designation. The Company is required to implement the statement in the first quarter of fiscal 2000. The Company has not used derivative instruments and believes the impact of adoption of this statement will not have a significant effect on the financial statements.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use." This SOP is effective for fiscal years beginning after December 15, 1998. This SOP requires capitalization of certain costs of computer software developed or obtained for internal use.

3. ACCOUNTS RECEIVABLE

A summary of the activity in the allowance for uncollectible accounts for the year ended December 31, 1998 is as follows:

	AMOUNT
	-----
Provision charged to expense.....	\$ 580,448
Charge offs.....	(289,625)
	-----
Balance at end of period.....	\$ 290,823
	-----

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1997 and 1998 consists of the following:

	ESTIMATED USEFUL LIVES (YEARS)	1997	1998
		-----	-----
Computer equipment and software.....	3	\$ 1,144,263	\$ 7,034,088
Office equipment.....	3	89,846	584,034
Furniture and fixtures.....	7	158,006	380,847
		-----	-----
Total.....		1,392,115	7,998,969
Less accumulated depreciation and amortization.....		211,996	2,072,092
		-----	-----
Property and equipment--net.....		\$ 1,180,119	\$ 5,926,877
		-----	-----

Depreciation and amortization expense was \$211,996 and \$1,860,096 for the period July 18, 1997 to December 31, 1997 and the year ended December 31, 1998, respectively.

5. LONG-TERM DEBT

In April 1998, priceline.com issued a promissory note to an investor for \$1,000,000. The promissory note bears interest at a rate of 6% per annum and matures on April 15, 2003. In connection with the

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

promissory note, priceline.com issued detachable warrants to purchase 62,500 common shares at \$0.80 per share. The portion of the proceeds allocable to the warrant, estimated fair value of \$12,795, was accounted for as additional paid-in capital. The fair value of the warrants was determined using an option pricing model. The discount will be recorded as interest expense over the term of the promissory note. At December 31, 1998, the principal balance of the promissory note, net of unamortized discount, was \$989,018.

6. STOCKHOLDERS' EQUITY

Combined stockholders' equity at December 31, 1997 and 1998 consists of the following:

	1997	1998
	-----	-----
Priceline.com Incorporated:		
Common stock, \$0.008 par value--authorized 300,000,000 shares at December 31, 1997 and 1998 issued and outstanding, 51,669,720 and 93,225,200 shares at December 31, 1997 and 1998, respectively.....	\$ 413,358	\$ 745,802
Convertible Preferred Stock, \$0.01 par value; authorized 150,000,000 shares:		
Series A--\$1.16 liquidation value; issued and outstanding 17,288,684 shares.....	--	172,887
Series B--\$4.00 liquidation value; issued and outstanding, 13,837,500 shares.....	--	138,375
Additional paid-in capital.....	836,642	171,151,823
Priceline Travel, Inc:		
Common stock, \$1 par value--3,000 shares authorized, issued and outstanding.....	3,000	3,000
Additional paid-in capital.....	3,363	3,363
Accumulated deficit.....	(2,513,482)	(116,939,405)
Total stockholders' equity (deficiency).....	(1,257,119)	55,275,845
	-----	-----

On July 18, 1997, priceline.com issued 42,990,211 shares of Common Stock for the initial contributed services of the founders. No compensation expense was recognized for the contributed services as priceline.com was in the earliest phases of development. Such services included conceiving the priceline.com business model, developing business strategies and operating plans, initiating contact with airline suppliers and raising capital. There were no employment agreements related to the services initially contributed and/or the shares issued in respect of such shares.

Also, on July 18, 1997, priceline.com issued 6,895,834 shares of Common Stock to Walker Digital in exchange for the transfer by Walker Digital to priceline.com all of the rights, title, and interest in certain patents and patent applications relating to buyer driven commerce.

In July 1998, priceline.com also issued 8,125,000 shares of Common Stock, to the Chairman and Chief Executive Officer which resulted in the recognition of a one time charge of \$6,500,000 with respect to these shares. The shares were issued as compensation for agreeing to accept the position.

In July 1998, pursuant to an agreement between priceline.com and two partnerships affiliated with General Atlantic Partners, LP (collectively "GAP"), priceline.com sold to GAP a total of 17,288,684 shares

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 6. STOCKHOLDERS' EQUITY (CONTINUED)

of Series A Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock") for \$20,000,000.

In December 1998, priceline.com raised net proceeds of approximately \$54,414,550 by completing a private placement of an aggregate of 13,837,500 shares of its Series B Convertible Preferred Stock (the "Series B Preferred Stock") with several investors, including GAP and Vulcan Ventures Incorporated. Fees of \$850,000 have been paid to a company, in which a director of priceline.com is a director and stockholder, in connection with this transaction.

Shares of the Series A and Series B Preferred Stock are automatically convertible, subject to antidilution adjustment, into an equal number of shares of Common Stock upon an initial public offering of the Company. The holders of the Series A and Series B Preferred Stock vote together as a single class with the holders of Common Stock. If the Company has not consummated an initial public offering by December 1999, the conversion price of Series B Preferred Stock will be adjusted to \$1.97 per share. Since the Series B Preferred Stock contained this beneficial conversion feature at the date of issue, the Company allocated a portion of the proceeds equal to the value of the feature, \$34,650,000, to additional paid-in capital. This amount will be amortized over one year. Amortization will cease if an initial public offering is completed within one year and the Series B Preferred Stock convert at \$3.20 per share. The shares of the Series A and Series B Preferred Stock rank senior to the Common Stock with respect to liquidation and equal to the Common Stock with respect to dividends.

In April 1998, priceline.com issued warrants to purchase 125,000 shares of Common Stock, at a zero exercise price, to a non-employee in exchange for services rendered to the Company. The estimated fair value of the warrants at the date of grant of \$100,000 was based on the value of the equivalent shares as of the grant date, that is 125,000 shares at \$0.80 per share, and has been reflected as sales and marketing expense and additional paid-in-capital.

In April 1998, priceline.com issued warrants to purchase 62,500 shares of Common Stock at an exercise price of \$0.80 per share in conjunction with a promissory note (see Note 5--Long-Term Debt).

In August 1998, priceline.com entered into a warrant agreement with Delta Air Lines ("Delta") to purchase up to 18,892,604 shares of Common Stock at an exercise price of approximately \$0.93 per share ("Delta Warrant") for agreeing to participate in the priceline.com service. Vesting was contingent upon achievement of certain predetermined performance thresholds. However, there was no penalty for failure to provide ticket inventory to satisfy these performance thresholds. Accordingly, no expense was recorded when the warrant was issued. On December 31, 1998, the Company amended its agreement with Delta to eliminate the vesting contingencies and fix the number of shares subject to the warrant at 18,619,403. The warrants were immediately vested on the date of grant, in that they are not subject to any forfeiture for any reason. The amended Delta Warrant will become exercisable at the earlier of seven years or over three years upon the achievement of certain performance thresholds. The agreement does not require Delta to make any performance commitments, is non-exclusive and allows Delta to participate in other programs similar to the priceline.com service. Accordingly, the Company recognized approximately \$58.7 million of expense based upon the fair value of the warrant on December 31, 1998, of which \$3 million is included in cost of revenues-supplier warrant costs and \$55.7 million is included in expenses-supplier start-up warrant costs in the accompanying statement of operations.

On December 31, 1998, priceline.com issued warrants to purchase 937,500 shares of Common Stock at an exercise price of \$3.20 per share to three airlines in recognition of their being among the original



NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

6. STOCKHOLDERS' EQUITY (CONTINUED)

participants in the priceline.com service. Because there are no requirements as to the nature or length of that participation and the warrants are not subject to forfeiture for any reason, the Company recognized approximately \$2.3 million of expense based upon the fair value of the warrants at December 31, 1998, which is included in expenses-supplier start-up warrant costs in the accompanying statement of operations.

On January 29, 1999, priceline.com issued warrants to an airline to purchase 1,250,000 shares of Common Stock at an exercise price of \$6.40 per share. The warrants become exercisable as follows, 50% on January 29, 2000 and 50% on January 29, 2001. The agreement requires the airline to make available to priceline.com airline ticket inventory on certain specified terms and conditions for two years. If the airline does not provide the specified airline ticket inventory, the unexercised warrants are returnable and in addition, there is a penalty of \$1.0 million in the first year and \$0.5 million in the second year. The fair value of the warrant of \$3.1 million at the grant date was capitalized and will be amortized over the two year period during which services will be provided to the Company.

The fair value of the airline warrants was based on a third party valuation using an option pricing model and the following assumptions:

	DELTA WARRANTS	OTHER AIRLINE WARRANTS
	-----	-----
Stock Price.....	\$3.20	\$3.20
Exercise Price.....	\$0.93	\$3.20-\$6.40
Term.....	7 years	3-4 years
Volatility.....	132%	132%
Risk Free Rate.....	4.6%	4.6%

As of December 31, 1998, no warrants had been exercised.

7. STOCK OPTION PLAN

Priceline.com has adopted the 1997 Omnibus Plan (the "Plan"), which provides for grants of options as incentives and rewards to encourage employees, officers, consultants and directors in the long term success of the Company. The Plan provides for grants of options to purchase up to 23,875,000 shares at a purchase price equal to the fair market value on the date of grant. Generally, the options vest over three years from the date of grant. In accounting for the Plan, the Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options. When the exercise price of employee stock options issued under the plan equaled the fair value of the underlying stock on the date of grant, no compensation expense was recorded. Compensation expense was recognized for the fair value of the options granted to non-employees and to the extent fair value of the underlying stock exceeded the exercise price of employee stock options. Compensation expense, included in general and administrative, recognized during the year ended December 31, 1998 aggregated \$245,063.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

7. STOCK OPTION PLAN (CONTINUED)

The following summarizes the transactions pursuant to the Plan:

	SHARES	WEIGHTED AVERAGE OPTION PRICE	RANGE OF SHARE
Granted during 1998.....	23,449,219	\$ 0.93	\$ 0.80-3.20
Forfeited.....	(189,374)	0.80	0.80
Cancelled.....	(815,625)	0.80	0.80
Balance at December 31, 1998.....	22,444,220	0.94	
Exercisable at December 31, 1998.....	None		
Available for grant at December 31, 1998.....	1,430,780		

Had compensation costs been determined based upon the fair value at grant date, the Company's pro forma net loss and pro forma net loss per share for the year ended December 31, 1998 would have been reported as follows:

	REPORTED	PRO FORMA
Net loss.....	\$ 112,242,499	\$ 114,613,228
Net loss applicable to common shareholders.....	114,425,923	116,796,653
Basic and diluted loss per common share.....	1.41	1.44

The fair value of each option grant was determined on the date of grant using the minimum value method. The weighted average fair value of options granted during 1998 was estimated to be approximately \$0.15 on the dates of grant using the minimum value method and the following assumptions: volatility of 0%, risk free interest rate of 6.00% and an expected life of 3 years, respectively. The Plan also provides for the grant of tandem stock appreciation rights, stand-alone stock appreciation rights, phantom stock and other forms of equity based incentive awards which do not reduce the number of shares with respect to which incentive awards may be granted. No such awards were made as of December 31, 1998.

In February 1999, priceline.com established the 1999 Omnibus Plan (the "1999 Plan"), which provides for grants of options as incentives and rewards to encourage employees, officers, consultants and directors in the long term success of the Company. The Plan provides for grants of options to purchase up to 9,375,000 shares at a purchase price equal to the fair market value on the date of grant. Generally, the options vest over three years from the date of grant. The Plan also provides for the grant of tandem stock appreciation rights, stand-alone stock appreciation rights, phantom stock and other forms of equity based incentive awards which do not reduce the number of shares with respect to which incentive awards may be granted.

8. TAXES

INCOME TAXES--Through July 31, 1998, priceline.com operated as a limited liability company and income taxes (benefits) accrued to the members. Accordingly, no income taxes (benefits) were reflected in the accompanying financial statements as of December 31, 1997 and for the period then ended. Since converting from an LLC to a corporation in July 1998, the Company has incurred net operating losses of \$22,703,000. This loss will expire if not utilized by December 31, 2018. As of December 31, 1998 a

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. TAXES (CONTINUED)

valuation allowance for the full amount of the net deferred tax asset of approximately \$37,985,023, resulting from the tax net operating losses and other items was recorded because of the uncertainty regarding its realization.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at December 31, 1998 are as follows:

	1998
	-----
Equity based compensation.....	\$ 25,267,265
Net operating loss carryforwards.....	9,347,966
Start-up costs.....	2,988,359
Other.....	381,433
	-----
Less valuation allowance.....	(37,985,023)
	-----
Deferred tax asset, net.....	\$ --
	-----
	-----

The income tax benefit is different from the amount computed using applicable statutory federal rates for the following reasons:

	1998
	-----
Income tax benefit at federal statutory rate.....	\$ 39,284,875
Adjustment due to:	
LLC status through July 31, 1998.....	(7,089,945)
State taxes and other.....	5,790,093
Increase in valuation allowance.....	(37,985,023)
	-----
Income tax benefit.....	\$ --
	-----
	-----

FEDERAL AIR TRANSPORTATION TAX--Currently, a Federal transportation tax is imposed upon the sale of airline tickets and generally is collected by the airlines selling the tickets. The tax is based upon a percentage of the cost of transportation, which was 9% for periods prior to October 1, 1998 and 8% thereafter. The tax has been calculated based on the amount paid to the airline for a ticket, rather than the price paid by the customer. There is a possibility that current law requires computation of the tax based on the price paid by the customer. Approximately \$111,000 in additional taxes relating to the method of calculating the tax has been accrued as of December 31, 1998.

9. OTHER RELATED PARTY TRANSACTIONS

The Founder and Vice Chairman of priceline.com also serves as non-executive Chairman of NewSub Services, Inc. ("NewSub"), a direct marketing company co-founded by him. The Company participates in certain adaptive marketing programs with NewSub. Sales and marketing expense related to these programs totaled \$80,799 for the year ended December 31, 1998. There was no such expense in 1997.

In June 1998, priceline.com issued a promissory note to a Walker Digital for \$1,000,000. The promissory note bore interest at a rate of 6% per annum and was due June 30, 1999. The note has been repaid.

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 10. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS--On January 6, 1999, priceline.com received notice that a third party patent applicant and patent attorney, Thomas G. Woolston, purportedly had filed in December 1998 with the United States Patent and Trademark Office a request to declare an "interference" between a patent application filed by Woolston describing an electronic market for used and collectible goods and priceline.com's core buyer-driven commerce patent. Priceline.com has received a copy of a Petition for Interference from Woolston, the named inventor of at least three United States Patent applications titled "Consignment Nodes," one of which has issued as a patent. Priceline.com currently is awaiting information from the Patent Office regarding whether it will initiate an interference proceeding concerning Woolston's patent application and priceline.com's core buyer-driven commerce patent. An interference is an administrative proceeding instituted in the Patent Office to determine questions of patentability and priority of invention between two or more parties claiming the same patentable invention. There is no statutory period within which the Patent Office must act on an interference request. If an interference is declared and proceeds through a final hearing in the Patent Office, a final judgment is made by the Patent Office as to inventorship. Following such final judgment, appeals could be made in Federal court. While there can be no certainty as to time periods, interference proceedings typically take years to resolve.

As a threshold to the initiation of an interference proceeding, Woolston must show that his patent application supports claims that he copied from the priceline.com core buyer-driven commerce patent. In order to make this showing, he would have to prove, among other things, that he invented the subject matter of the priceline.com claims before the inventors of the priceline.com patent. If the Patent Office were to find that Woolston's patent application supported the copied priceline.com claims, it would resolve the interference by awarding inventorship to the party with the earliest proven date of invention. Woolston recently announced an agreement to license his issued patent and pending patent applications to the owner of an Internet travel service that, according to such announcement, commenced on-line operations in the fourth quarter of 1998 and purports to compete with priceline.com.

While the interference process is still at an early stage, priceline.com believes that it has meritorious defenses to Woolston's claim, which it intends to pursue vigorously. Among other things, priceline.com believes that the Woolston patent application does not disclose the inventions covered by the priceline.com patent claims. However, it is impossible to predict the outcome of an interference with certainty. While Woolston claims to have an earlier invention date by a period of approximately sixteen months, the final decision as to priority of invention would be made by the Patent Office after considering facts provided by each party during the interference proceeding. If an interference is declared and thereafter resolved in favor of Woolston, such resolution could result in an award of some or all of the disputed patent claims to Woolston. If, following such award, Woolston were successful in a patent infringement action against priceline.com, including prevailing over all defenses available to priceline.com such as those of non-infringement and invalidity, this could require priceline.com to obtain licenses from Woolston at a cost which could significantly adversely affect priceline.com's business. If, in addition to prevailing in both an interference and an infringement action, Woolston were able to make the showings necessary to obtain an injunction, then priceline.com could be enjoined from conducting business through the priceline.com service to the extent covered by the patent claims awarded to Woolston. In addition, defense of the interference action may be expensive and may divert management attention away from priceline.com's business.

On January 19, 1999, Marketel International Inc. ("Marketel"), a California corporation, filed a lawsuit against priceline.com and Priceline Travel, among others. On February 22, 1999, Marketel filed an amended and supplemental complaint. The amended complaint filed by Marketel alleges causes of action for, among other things, misappropriation of trade secrets, breach of contract, conversion, breach of

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

confidential relationship, copyright infringement, fraud, unfair competition and false advertising, and seeks injunctive relief and damages in an unspecified amount. In its amended complaint, Marketel alleges, among other things, that the defendants conspired to misappropriate Marketel's business model, which it describes as a buyer-driven electronic marketplace for travel services and its appurtenant techniques, market research, forms, plans, and processes, which allegedly were provided in confidence approximately ten years ago. The amended complaint also alleges that three former Marketel employees are the actual sole inventors or co-inventors of a patent which was issued on August 11, 1998 and which patent has been assigned to priceline.com. Marketel asks that the patent's inventorship be corrected accordingly.

Based upon publicly available information, priceline.com believes that Marketel's fax and fee-based business was launched in 1991 and ceased operations seven months later. Priceline.com's Internet-based model was independently developed by Walker Digital and priceline.com, and practiced by the Company starting in 1998. Based on publicly available information and Marketel's complaint, priceline.com understands that Marketel operated a fax-based travel information service which offered consumers, travel agents and/or consolidators the opportunity to purchase specially printed forms. These forms, when accompanied by an additional non-refundable fee, allowed prospective ticket buyers to fax to Marketel credit-card guaranteed bids for airline travel at a bid price specified by the buyer. The Company believes that Marketel has not engaged in any regular commercial activities since ceasing operations in 1992. Based upon publicly available information, Marketel reactivated its active status as a corporation by satisfying its back-due tax obligations to the State of California shortly after the filing of its complaint.

On February 5, and February 10, 1999, the Company filed their answer and amended answer, respectively, to the amended complaint, in which they denied the material allegations of liability in the complaint. Priceline.com and all other defendants strongly dispute the material legal and factual allegations contained in Marketel's amended complaint and believe that the amended complaint is without merit. Priceline.com intends to defend vigorously against the action. Defending the law suit may involve significant expense and, due to the inherent uncertainties of litigation, there can be no certainty as to the ultimate outcome. Pursuant to the indemnification obligations contained in the Purchaser and Intercompany Services Agreement with Walker Digital, Walker Digital has agreed to indemnify, defend and hold harmless priceline.com for damages, liabilities and legal expenses incurred in connection with the Marketel litigation.

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, and including claims of alleged infringement of third party intellectual property rights by the company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

**AIRLINE ALLIANCES AND RELATIONSHIPS**--Priceline.com has entered into Airline Participation Agreements with eighteen airlines for the supply of airline tickets. The Airline Participation Agreements do not commit the airlines to provide tickets for any particular routes or at a discount to their retail prices, but outline the terms and conditions under which tickets may be sold pursuant to fares, rules and availability that the airlines may provide from time to time. The Airline Participation Agreements are generally subject to termination upon 30 days notice by priceline.com or the airline.

**EMPLOYMENT CONTRACTS**--Priceline.com has entered into employment agreements with certain members of senior management that provide for minimum annual compensation of approximately \$2,135,000 in the aggregate. The agreements provide for periods of employment of up to 3 years. Generally, the agreements provide for incentives and bonuses based on the achievement of performance goals, as well as the grant of stock options under the 1997 Omnibus Stock Option Plan.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CAPITAL LEASES--Priceline.com leases certain machinery and equipment costing \$74,711 under a capital lease agreement. Accumulated depreciation on this equipment was \$2,075 and \$26,979 at December 31, 1997, and December 31, 1998, respectively. These amounts are included in property and equipment in Note 4.

Future minimum lease payments, including interest, under the capital lease at December 31, 1998 are as follows:

YEAR ENDING DECEMBER 31,	
1999.....	\$ 30,389
2000.....	30,389
	-----
Total minimum lease payments.....	60,778
Less amounts representing interest.....	9,671
	-----
Present value of future minimum lease payments.....	51,107
Less current portion of obligations.....	25,033
	-----
Obligations under capital leases, net of current portion.....	\$ 26,074
	-----

11. BENEFIT PLAN

Priceline.com adopted a defined contribution 401(k) savings plan (the "Plan") during 1998 covering all employees who are at least 21 years old and have completed 6 months of service. The Plan allows eligible employees to contribute up to 20% of their eligible earnings, subject to a statutorily prescribed annual limit. The Company may make matching contributions on a discretionary basis to the Plan. All participants are fully vested in their contributions and investment earnings. During the year ended December 31, 1998, the Company did not make any matching contributions to the Plan.

12. SUBSEQUENT EVENTS

On March , 1999 the Board of Directors declared a 1.25 for one stock split of the Company's common stock. The effect of the stock split was to reduce the par value of the common stock from \$.01 per share to \$.008 per share. All share and per share data have been retroactively adjusted to reflect the stock split.

On March 3, 1999, Capital One Bank notified the Company of its termination of its adaptive marketing program effective May 1, 1999.

13. RESTATEMENT

Subsequent to the issuance of the Company's combined 1998 financial statements, the Company's management determined that the calculation of the fair value of the Delta warrant, other airline warrants and the beneficial conversion feature on the Series B Preferred Stock should be revised. The fair value of the Delta warrant and the other airline warrants has been revised to reflect the change in the volatility assumption from 50% to 132%, eliminate the "large block" and lack of marketability discounts, and consider the warrant's anti-dilution and exercisability features. As a result, the 1998 combined financial statements have been restated from the amounts previously reported to recognize an additional \$22.0 million of expense based upon the revised fair value of the warrants at December 31, 1998, of which \$3.0 million is included in the cost of revenues-supplier warrant costs and \$19.0 million is included in expenses-supplier start-up warrant costs. In addition, the value of the beneficial conversion feature on the

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 13. RESTATEMENT (CONTINUED)

Series B Preferred Stock has been revised to calculate such amount based on 22,500,000 shares. As a result, additional paid-in capital and accumulated deficit have been restated from amounts previously reported to recognize an additional \$883,425 of accretion of preferred stock based on the revalued beneficial conversion feature.

A summary of the significant effects of the restatement is as follows:

	AS PREVIOUSLY REPORTED	AS RESTATED
	-----	-----
At December 31, 1998:		
Additional paid-in capital.....	\$ 148,224,070	\$ 171,155,186
Accumulated deficit.....	(94,008,289)	(116,939,405)
For the year ended December 31, 1998:		
Cost of revenues-supplier warrant costs.....	--	3,029,014
Expenses-supplier start-up warrant costs.....	38,960,000	57,978,678
Net loss.....	(90,194,807)	(112,242,499)
Accretion on preferred stock.....	(1,300,000)	(2,183,424)
Net loss applicable to common shareholders.....	(91,494,807)	(114,425,923)
Basic and diluted loss per common share.....	(1.13 (1))	(1.41)

(1) Basic and diluted loss per common share as previously reported has been restated for a 1.25 for one stock split.

[At the top of the page, a picture of a customer in the middle of the following text: BUYER-DRIVEN COMMERCE]

[Four page screen shots with textual descriptions of the four steps involved in making an offer for airline tickets with the heading: "airline ticket example. .." and the following language below the heading: "In just four steps, priceline.com customers can name their own price for a leisure airline ticket on a major carrier."]

The first page screen shot in the top left with the following caption:

Step 1:

Tell us where and when....

Enter where you want to go and the dates you want to travel. Choose as many different airports to leave and arrive from as you want--the more the better.

The second page screen shot in the top right with the following caption:

Step 2:

Review the rules....

Priceline.com's airline ticket service is designed for leisure travelers who can be flexible on their flights and routing. The rules are clearly explained on the Web site.

The third page screen shot in the bottom left with the following caption:

Step 3:

Name your price....

Enter the price you want to pay--there are no minimums and no advance purchase restrictions. We encourage customers to shop around first and be reasonable.

The fourth page screen shot in the bottom right with the following caption:

Step 4:

Provide a credit card....

Your credit card is used to guarantee that you'll buy the tickets if priceline.com is successful at getting a major airline to agree to your price. You get a yes or no answer in just one hour!



The page is blank except for the following text in the middle of the page:

priceline.com(SM)  
name your own price..and save!

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by priceline.com in connection with the sale of common stock being registered. All amounts are estimates.

SEC registration fee.....	\$	31,970
NASD Filing fee.....		12,000
Nasdaq National Market listing fee.....		50,000
Printing and engraving expenses.....		700,000
Legal fees and expenses.....		675,000
Accounting fees and expenses.....		550,000
Blue sky fees and expenses.....		5,000
Transfer agent fees.....		12,500
Miscellaneous fees and expenses.....		100,000
		-----
Total.....	\$	2,136,470
		-----

- -----  
\* to be filed by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law authorizes a court to award or a corporation's board of directors to grant indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933.

As permitted by Delaware law, Article Seventh of priceline.com's certificate of incorporation provides that (1) priceline.com is required to indemnify its directors and officers to the fullest extent permitted by Delaware law, subject to certain very limited exceptions; (2) priceline.com is permitted to indemnify its other employees to the extent that it indemnifies its officers and directors, unless otherwise required by law, its certificate of incorporation, its by-laws or agreements; (3) priceline.com is required to advance expenses, as incurred, to its directors and officers in connection with a legal proceeding to the fullest extent permitted by Delaware law, subject to certain very limited exceptions; and (4) the rights conferred in the certificate of incorporation are not exclusive. As permitted by Delaware law, priceline.com's certificate of incorporation includes a provision that eliminates the personal liability of its directors for monetary damages for breach of fiduciary duty as a director, except for liability (1) for any breach of the director's duty of loyalty to priceline.com or its stockholders; (2) for acts of omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (3) under Section 174 of Delaware General Corporation Law regarding payments of dividends, stock purchases or redemptions which are unlawful; or (4) for any transaction from which the director derived an improper personal benefit. This provision in the certificate of incorporation does not eliminate the directors' fiduciary duty, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to priceline.com for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

As permitted by Delaware law, priceline.com has purchased insurance covering the company's directors and officers against liability asserted against them in their capacity as such. Reference is made to the Underwriting Agreement contained in Exhibit 1.1 hereto, which contains provisions indemnifying officers and directors of priceline.com against certain liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since its inception, priceline.com has issued and sold the following securities:

In July 1997, priceline.com's predecessor issued an aggregate of 42,990,211 equity units to Messrs. Jay S. Walker, Jesse M. Fink, Timothy G. Brier, Paul E. Francis and two other executive officers for services previously rendered.

In July 1997, priceline.com's predecessor issued 6,895,834 equity units to Walker Digital Corporation, which, together with its affiliate Walker Asset Management Limited Partnership, transferred to priceline.com all of their rights, title, and interest in certain patents and patent applications relating to buyer-driven commerce.

From September 1997 to February 1998, priceline.com's predecessor issued and sold an aggregate of 6,350,878 equity units to Mr. Paul E. Francis, a partnership affiliated with General Atlantic Partners, LLC and six other investors for an estimated fair value of \$0.70 per share.

From March 1998 to July 1998, priceline.com's predecessor issued and sold an aggregate of 28,650,455 equity units to Mr. Jay S. Walker, a trust affiliated with Mr. Jay S. Walker, Walker Digital, Mr. Richard S. Braddock, a trust affiliated with Mr. N.J. Nicholas, Jr., Mr. Ralph M. Bahna and one other investor for an estimated fair value of \$0.80 per share.

In April 1998, priceline.com issued warrants to purchase 125,000 shares of common stock to a non-employee in exchange for services rendered to priceline.com for an estimated fair value of approximately \$100,000. These warrants have been fully exercised.

In April 1998, priceline.com issued warrants to purchase 62,500 shares of common stock at an exercise price of \$0.80 per share to an individual in connection with the execution of a promissory note in the amount of \$1,000,000. These warrants have been fully exercised.

In July 1998, priceline.com's predecessor issued 8,125,000 equity units to Mr. Richard S. Braddock in connection with his employment as its Chief Executive Officer and Chairman.

On July 31, 1998, all of the foregoing equity units were converted into an equal number of shares of common stock as a result of the merger of priceline.com's predecessor into priceline.com.

On July 31, 1998, priceline.com issued and sold 17,288,684 shares of its Series A convertible preferred stock to two partnerships affiliated with General Atlantic Partners, LLC for an estimated fair value of approximately \$1.16 per share.

In August 1998, priceline.com issued warrants to Delta to purchase up to 18,892,604 shares of common stock at an exercise price of approximately \$0.93 per share. This warrant was amended in December 1998 to, among other things, fix the number of shares of common stock subject to the warrant at 18,619,403.

In October 1998, priceline.com issued and sold an aggregate of 134,699 shares of common stock to Mr. Paul J. Blackney and another individual for an estimated fair value of \$0.93 per share.

On December 8, 1998, priceline.com issued and sold an aggregate of 13,837,500 shares of its Series B convertible preferred stock to Vulcan, two partnerships affiliated with General Atlantic Partners, LLC and seven other investors for an estimated fair value of \$4.00 per share.



On December 8, 1998, priceline.com issued and sold an aggregate of 78,125 shares of common stock to Mr. Braddock for an estimated fair value of \$3.20 per share.

In December 1998, priceline.com issued warrants entitling three airlines to each purchase up to 312,500 shares of common stock at an exercise price of \$3.20 per share.

In January 1999, priceline.com issued warrants to an airline to purchase up to 1,250,000 shares of common stock at an exercise price of \$6.40 per share.

The issuances described above in this Item 15 were deemed exempt from registration under the Securities Act in reliance on either (1) Rule 701 promulgated under the Securities Act as offers and sales of securities pursuant to certain compensatory benefit plans and contracts relating to compensation in compliance with Rule 701 or (2) Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(A) EXHIBITS:

EXHIBIT	DESCRIPTION
1.1**	Form of Underwriting Agreement.
2.1*	Agreement of Merger, dated as of July 31, 1998, between priceline.com LLC and the Registrant.
2.2**	Form of Agreement of Merger between Priceline Travel, Inc. and the Registrant.
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant to be filed on the closing of the offering made hereby.
3.2	Form of By-Laws of the Registrant to be filed on the closing of the offering made hereby.
4.1	Reference is hereby made to Exhibits 3.1 and 3.2.
4.2	Specimen Certificate for Registrant's Common Stock.
4.3*	Amended and Restated Registration Rights Agreement, dated as of December 8, 1998, among the Registrant and certain stockholders of the Registrant.
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP.
10.1.1*	1997 Omnibus Plan of the Registrant.
10.1.2	1999 Omnibus Plan of the Registrant.
10.2*	Stock Purchase Agreement, dated July 31, 1998, among the Registrant and the investors named therein, as amended.
10.3*	Stock Purchase Agreement, dated as of December 8, 1998, among the Registrant and the investors named therein.
10.4	Reference is hereby made to Exhibit 4.3.
10.5*	Purchase and Intercompany Services Agreement, dated April 6, 1998, among the Registrant, Walker Asset Management Limited Partnership, Walker Digital Corporation and Priceline Travel, Inc.
10.6.1*	Employment Agreement, dated as of January 1, 1998, between Jay S. Walker, Walker Digital Corporation, the Registrant and Jesse M. Fink.
10.6.2*	Amendment No. 1 to Employment Agreement, dated November 16, 1998 between the Registrant and Jesse M. Fink.
10.7.1*	Employment Agreement, dated as of July 23, 1998, between the Registrant and Timothy G. Brier.

## EXHIBIT

## DESCRIPTION

EXHIBIT	DESCRIPTION
10.7.2*	Amendment No. 1 to Employment Agreement, dated November 16, 1998, between the Registrant and Timothy G. Brier.
10.8	Amended and Restated Employment Agreement, dated as of August 15, 1998, by and between the Registrant and Richard S. Braddock.
10.9*	Airline Participation Agreement, dated April 1998, by and among the Registrant, Priceline Travel, Inc. and Trans World Airlines, Inc.
10.10*+	Airline Participation Agreement, dated October 2, 1998, by and among the Registrant, Priceline Travel, Inc. and Northwest Airlines, Inc.
10.11.1*+	General Agreement, dated August 31, 1998, by and among the Registrant, Priceline Travel, Inc. and Delta Air Lines, Inc.
10.11.2*+	Airline Participation Agreement, dated August 31, 1998, by and among the Registrant, Priceline Travel, Inc. and Delta Air Lines, Inc.
10.11.3*+	Amendment to the Airline Participation Agreement and the General Agreement, dated December 31, 1998, between and among the Registrant, Priceline Travel, Inc. and Delta Air Lines, Inc.
10.12*+	Airline Participation Agreement, dated December 31, 1998, by and among the Registrant, Priceline Travel, Inc. and America West Airlines.
10.13*+	Internet Marketing and Licensing Agreement, as of August 1, 1998, between the Registrant and LendingTree, Inc.
10.14*	Systems Access Agreement, dated as of August 4, 1997, between the Registrant and WORLDSPAN, L.P.
10.15*	Master Agreement for Outsourcing Call Center Support, dated as of April 6, 1998, between the Registrant and CALLTECH Communications, Incorporated.
10.16*	\$1,000,000 Commercial Promissory Note, dated April 15, 1998, between the Registrant and Andre Jaeckle.
10.17*	Warrant Agreement, dated April 15, 1998, between the Registrant and Andre Jaeckle.
10.18*	Warrant Agreement, dated April 9, 1998, between the Registrant and William Shatner.
10.19.1*	Participation Warrant Agreement, dated August 31, 1998, between the Registrant and Delta Air Lines, Inc.
10.19.2+	First Amendment and Waiver to Participation Warrant Agreement, dated December 31, 1998, between the Registrant and Delta Air Lines, Inc.
10.21*	Form of Participation Warrant Agreement.
10.22.1+	Participation Warrant Agreement, dated as of December 31, 1998.
10.22.2+	Amendment No. 1, dated as of February 4, 1999, to Warrant Participation Agreement, dated as of December 31, 1998.
10.22.3+	Amendment No. 2, dated as of March 3, 1999, to Participation Warrant Agreement, dated as of December 31, 1998, as previously amended by Amendment No. 1 to Warrant Participation Agreement, dated as of February 4, 1999.
10.23*	Form of Hotel Agreement.
10.24	Co-Marketing Agreement, dated February 18, 1999, by and between the Registrant and E*TRADE Group, Inc.
23.1	Consent of Deloitte & Touche LLP.
24.1*	Power of Attorney.

\* Previously filed.

\*\* To be filed by amendment.

+ Certain portions of this document have been omitted pursuant to a confidential treatment request.

(B) FINANCIAL STATEMENT SCHEDULES:

All schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the combined financial statements or notes thereto.

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) of (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Stamford, State of Connecticut, on March 18, 1999.

PRICELINE.COM INCORPORATED

By: /s/ MELISSA M. TAUB

-----  
 Melissa M. Taub  
 SENIOR VICE PRESIDENT,  
 GENERAL COUNSEL AND SECRETARY

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
* ----- Richard S. Braddock	Chairman and Chief Executive Officer (Principal Executive Officer)	March 18, 1999
* ----- Jay S. Walker	Vice Chairman, Founder and Director	March 18, 1999
/s/ PAUL E. FRANCIS ----- Paul E. Francis	Chief Financial Officer (Principal Financial Officer)	March 18, 1999
* ----- Melissa M. Taub	Senior Vice President, General Counsel and Secretary	March 18, 1999
* ----- Thomas P. D'Angelo	Vice President Finance and Controller (Principal Accounting Officer)	March 18, 1999
* ----- Ralph M. Bahna	Director	March 18, 1999
* ----- Paul A. Allaire	Director	March 18, 1999



SIGNATURE	TITLE	DATE
* ----- Paul J. Blackney	Director	March 18, 1999
* ----- William E. Ford	Director	March 18, 1999
* ----- Marshall Loeb	Director	March 18, 1999
* ----- N.J. Nicholas, Jr.	Director	March 18, 1999
* ----- Nancy B. Peretsman	Director	March 18, 1999

\*By: /s/ PAUL E. FRANCIS  
-----  
Paul E. Francis  
ATTORNEY-IN-FACT

## EXHIBIT INDEX

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4.3*	Amended and Restated Registration Rights Agreement, dated as of December 8, 1998, among the Registrant and certain stockholders of the Registrant.	
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP.	
10.1.1*	1997 Omnibus Plan of the Registrant.	
10.1.2	1999 Omnibus Plan of the Registrant.	
10.2*	Stock Purchase Agreement, dated July 31, 1998, among the Registrant and the investors named therein, as amended.	
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10.5*	Purchase and Intercompany Services Agreement, dated April 6, 1998, among the Registrant, Walker Asset Management Limited Partnership, Walker Digital Corporation and Priceline Travel, Inc.	
10.6.1*	Employment Agreement, dated as of January 1, 1998, between Jay S. Walker, Walker Digital Corporation, the Registrant and Jesse M. Fink.	
10.6.2*	Amendment No. 1 to Employment Agreement, dated November 16, 1998 between the Registrant and Jesse M. Fink.	
10.7.1*	Employment Agreement, dated as of July 23, 1998, between the Registrant and Timothy G. Brier.	
10.7.2*	Amendment No. 1 to Employment Agreement, dated November 16, 1998, between the Registrant and Timothy G. Brier.	
10.8	Amended and Restated Employment Agreement, dated as of August 15, 1998, by and between the Registrant and Richard S. Braddock.	
10.9*	Airline Participation Agreement, dated April 1998, by and among the Registrant, Priceline Travel, Inc. and Trans World Airlines, Inc.	
10.10**	Airline Participation Agreement, dated October 2, 1998, by and among the Registrant, Priceline Travel, Inc. and Northwest Airlines, Inc.	
10.11.1**	General Agreement, dated August 31, 1998, by and among the Registrant, Priceline Travel, Inc. and Delta Air Lines, Inc.	
10.11.2**	Airline Participation Agreement, dated August 31, 1998, by and among the Registrant, Priceline Travel, Inc. and Delta Air Lines, Inc.	
10.11.3**	Amendment to the Airline Participation Agreement and the General Agreement, dated December 31, 1998, between and among the Registrant, Priceline Travel, Inc. and Delta Air Lines, Inc.	
10.12**	Airline Participation Agreement, dated December 31, 1998, by and among the Registrant, Priceline Travel, Inc. and America West Airlines.	

EXHIBITS	DESCRIPTION	PAGE
10.13**+	Internet Marketing and Licensing Agreement, as of August 1, 1998, between the Registrant and LendingTree, Inc.	
10.14*	Systems Access Agreement, dated as of August 4, 1997, between the Registrant and WORLDSPAN, L.P.	
10.15*	Master Agreement for Outsourcing Call Center Support, dated as of April 6, 1998, between the Registrant and CALLTECH Communications, Incorporated.	
10.16*	\$1,000,000 Commercial Promissory Note, dated April 15, 1998, between the Registrant and Andre Jaeckle.	
10.17*	Warrant Agreement, dated April 15, 1998, between the Registrant and Andre Jaeckle.	
10.18*	Warrant Agreement, dated April 9, 1998, between the Registrant and William Shatner.	
10.19.1*	Participation Warrant Agreement, dated August 31, 1998, between the Registrant and Delta Air Lines, Inc.	
10.19.2**+	First Amendment and Waiver to Participation Warrant Agreement, dated December 31, 1998, between the Registrant and Delta Air Lines, Inc.	
10.21*	Form of Participation Warrant Agreement.	
10.22.1**+	Participation Warrant Agreement, dated December 31, 1998.	
10.22.2+	Amendment No. 1 dated as of February 4, 1999 to Warrant Participation Agreement, dated as of December 31, 1998.	
10.22.3+	Amendment No. 2 dated as of March 3, 1999 to Participation Warrant Agreement, dated as of December 31, 1998, as previously amended by Amendment No. 1 to Warrant Participation Agreement, dated as of February 4, 1999.	
10.24	Co-Marketing Agreement, dated February 18, 1999, by and between the Registrant and E*TRADE Group, Inc.	
23.1	Consent of Deloitte & Touche LLP.	
24.1*	Power of Attorney.	

\* Previously filed.

\*\* To be filed by amendment.

+ Certain portions of this document have been omitted pursuant to a confidential treatment request.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
PRICELINE.COM INCORPORATED

-----  
Pursuant to Sections 228, 242 and 245 of  
the Delaware General Corporation Law  
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Priceline.com Incorporated, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

(1) The name of the Corporation is priceline.com Incorporated.

(2) The date of filing of the Corporation's original certificate of incorporation with the Secretary of State is July 30, 1998.

(3) This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation and adopted by the holders of a majority of the issued and outstanding shares of capital stock of the Corporation, in accordance with Sections 228, 242 and 245 of the Delaware General Corporation Law.

(4) The Corporation's Certificate of Incorporation, as heretofore amended, is hereby restated, integrated and amended to read in its entirety as follows:

FIRST: The name of the Corporation is priceline.com Incorporated (hereinafter, the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1013 Centre Road, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at that address is Corporation Service Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "DGCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is 1,000,000,000 shares of common stock, each having a par value of one penny (\$.008), and 150,000,000 shares of preferred stock, each having a par value of one penny (\$.01).

The Board of Directors of the Corporation is expressly authorized to provide for the issuance of all or any shares of the preferred stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such distinctive designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors of the Corporation providing for the issuance of such class or series and as may be permitted by the DGCL, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (iv) convertible into, or exchangeable for, shares of any other class or classes of stock of the Corporation at such price or prices or at such rates of exchange and with such adjustments; and/or (v) entitled to voting rights, including extraordinary or limited voting rights; all as may be stated in such resolution or resolutions.

FIFTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(1) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors of the Corporation.

(2) The directors of the Corporation shall have concurrent power with the stockholders of the Corporation to make, alter, amend, change, add to or repeal the By-Laws of the Corporation.

(3) The number of directors of the Corporation shall be as from time to time fixed by, or in the manner provided in, the By-Laws of the Corporation. Election of directors of the Corporation need not be by written ballot unless the By-Laws of the Corporation so provide.

(4) No director of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article FIFTH shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

(5) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors of the Corporation are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the DGCL, this Amended and Restated Certificate of Incorporation, and any By-Laws adopted by the stockholders of the Corporation; PROVIDED, HOWEVER, that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors of the Corporation which would have been valid if such By-Laws had not been adopted.

(6) Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called

annual or special meeting of the stockholders of the Corporation, and the stockholders of the Corporation may not act by written consent.

(7) Unless otherwise required by law, special meetings of the stockholders of the Corporation, for any purpose or purposes, may be called by either (i) the Chairman of the Board of Directors of the Corporation, if there be one, (ii) the Vice Chairman of the Board of Directors of the Corporation, if there be one, (iii) the Chief Executive Officer of the Corporation or (iv) the Board of Directors of the Corporation, and the stockholders of the Corporation may not call a special meeting of the stockholders of the Corporation.

SIXTH: Meetings of the stockholders of the Corporation may be held within or without the State of Delaware, as the By-Laws of the Corporation may provide. The books of the Corporation may be kept (subject to any provision contained in the DGCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors of the Corporation or in the By-Laws of the Corporation.

SEVENTH: The Corporation shall indemnify its directors and officers to the fullest extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his or her heirs, executors and personal and legal representatives; PROVIDED, HOWEVER, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or personal or legal representatives) in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation. The right to indemnification conferred by this Article SEVENTH shall include the right to be paid by the Corporation the expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.

The Corporation may, to the extent authorized from time to time by the Board of Directors of the Corporation, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article SEVENTH to directors and officers of the Corporation.

The rights to indemnification and to the advancement of expenses conferred in this Article SEVENTH shall not be exclusive of any other right which any person may have or hereafter acquire under this Amended and Restated Certificate

of Incorporation, the By-Laws of the Corporation, any statute, agreement, vote of the stockholders of the Corporation or disinterested directors of the Corporation or otherwise.

Any repeal or modification of this Article SEVENTH shall not adversely affect any rights to indemnification and to the advancement of expenses of a director or officer of the Corporation existing at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

EIGHTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders of the Corporation herein are granted subject to this reservation.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be signed by the Secretary of the Corporation this     day of                     , 1999.

-----  
Melissa M. Taub  
Secretary



BY-LAWS

OF

PRICELINE.COM INCORPORATED

(hereinafter called the "Corporation")

ARTICLE I

OFFICES

SECTION 1. REGISTERED OFFICE. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

SECTION 2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 1. PLACE OF MEETINGS. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware as shall be designated from time to time by the Board of Directors.

SECTION 2. ANNUAL MEETINGS. The annual meeting of stockholders for the election of directors shall be held on such date and at such time as shall be designated from time to time by the Board of Directors. Any other proper business may be transacted at the annual meeting of stockholders.

SECTION 3. SPECIAL MEETINGS. Unless otherwise required by law, special meetings of stockholders, for any purpose or purposes, may be called as set forth in the certificate of incorporation of the Corporation, as amended or amended and restated from time to time (the "Certificate of Incorporation"). At a special meeting of stockholders, only such business shall be conducted as shall be specified in the notice of meeting (or any supplement thereto).

SECTION 4. NOTICE. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise required by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

SECTION 5. NATURE OF BUSINESS AT MEETINGS OF STOCKHOLDERS. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given

by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 5 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 5.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; PROVIDED, HOWEVER, that (i) in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date or (ii) with respect to the annual meeting of stockholders of the Corporation for the year 2000, notice by the stockholder in order to be timely must be so received not later than the close of business

on the tenth (10th) day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 5; PROVIDED, HOWEVER, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 5 shall be deemed to preclude discussion by any stockholder of any such

business. If the chairman of the annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

SECTION 6. NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation, except as may be otherwise provided in the Certificate of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of directors in certain circumstances. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders, or at any special meeting of stockholders called for the purpose of electing directors, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 6 and on the record date for the determination of stockholders entitled to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 6.

In addition to any other applicable requirements, for a nomination to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of an annual meeting, not less than sixty (60) days nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; PROVIDED, HOWEVER, that (i) in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date or (ii) with respect to the annual meeting of stockholders of the Corporation for the year 2000, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of such person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned

beneficially or of record by such person and (iv) any other information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 6. If the chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

SECTION 7. ADJOURNMENTS. Any meeting of the stockholders may be adjourned from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 8. QUORUM. Unless otherwise required by law or the Certificate of Incorporation, the holders of a majority of the capital stock of the Corporation issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. A quorum, once established, shall not be broken by the



withdrawal of enough votes to leave less than a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, in the manner provided in Section 7, until a quorum shall be present or represented.

SECTION 9. VOTING. Unless otherwise required by law, the Certificate of Incorporation or these By-laws, any question brought before any meeting of stockholders, other than the election of directors, shall be decided by the vote of the holders of a majority of the total number of votes of the capital stock represented and entitled to vote thereat, voting as a single class. Unless otherwise provided in the Certificate of Incorporation, and subject to Section 5 of Article V hereof, each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in such officer's discretion, may require that any votes cast at such meeting shall be cast by written ballot.

SECTION 10. LIST OF STOCKHOLDERS ENTITLED TO VOTE. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and

make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

SECTION 11. STOCK LEDGER. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 10 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

SECTION 12. CONDUCT OF MEETINGS. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of the stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the

judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

### ARTICLE III

#### DIRECTORS

SECTION 1. NUMBER AND ELECTION OF DIRECTORS. The Board of Directors shall consist of not less than one nor more than 13 members, the exact number of which shall be fixed by the Board of Directors. Except as otherwise provided in the Certificate of Incorporation or these By-Laws, directors shall be elected by a plurality of the votes cast at the annual meetings of stockholders and each director so elected

shall hold office until the next annual meeting of stockholders and until such director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal. Any director may resign at any time upon written notice to the Corporation. Directors need not be stockholders.

SECTION 2. VACANCIES. Unless otherwise required by law or the Certificate of Incorporation, vacancies arising through death, resignation, removal, an increase in the number of directors or otherwise may be filled only by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified, or until their earlier death, resignation or removal.

SECTION 3. DUTIES AND POWERS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws required to be exercised or done by the stockholders.

SECTION 4. MEETINGS. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors.

Special meetings of the Board of Directors may be called by the Chairman, if there be one, the Vice Chairman, if there be one, the Chief Executive Officer or by any director. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the date of the meeting, by telephone or telegram on twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

SECTION 5. QUORUM. Except as otherwise required by law or the Certificate of Incorporation, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned meeting, until a quorum shall be present.

SECTION 6. ACTIONS BY WRITTEN CONSENT. Unless otherwise provided in the Certificate of Incorporation, or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee,

as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 7. MEETINGS BY MEANS OF CONFERENCE TELEPHONE. Unless otherwise provided in the Certificate of Incorporation, members of the Board of Directors of the Corporation, or any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 shall constitute presence in person at such meeting.

SECTION 8. COMMITTEES. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent permitted by law

and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Each committee shall keep regular minutes and report to the Board of Directors when required.

SECTION 9. COMPENSATION. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director, payable in cash or securities. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

SECTION 10. INTERESTED DIRECTORS. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because the director or officer's vote is counted for such purpose if (i) the material

facts as to the director or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to the director or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

SECTION 11. EX OFFICIO MEMBERS OF THE BOARD OF DIRECTORS. The Board of Directors, in its discretion, may appoint one or more persons as ex officio members of the Board of Directors, who shall serve at the pleasure of the Board of Directors. Ex officio members of the Board of Directors shall be permitted to attend meetings of the Board of Directors but shall not be entitled to vote on any matter before the Board of Directors and shall not be considered to be directors of the Corporation for any other purpose, including without limitation, for establishing a



quorum, acting by written consent or providing notice of meetings. Notwithstanding the foregoing, the Board of Directors may hold meetings that do not include ex officio members of the Board of Directors.

#### ARTICLE IV

##### OFFICERS

SECTION 1. GENERAL. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a Secretary and a Treasurer. The Board of Directors, in its discretion, also may choose a Chairman of the Board of Directors (who must be a director), a Vice Chairman of the Board of Directors (who must be a director), a President and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law or the Certificate of Incorporation. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman and the Vice Chairman, need such officers be directors of the Corporation.

SECTION 2. ELECTION. The Board of Directors, at its first meeting held after each annual meeting of stockholders (or action by written consent of stockholders in lieu of the annual meeting of stockholders), shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the

Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier death, resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

SECTION 3. VOTING SECURITIES OWNED BY THE CORPORATION. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the Chief Executive Officer, the President or any Vice President or any other officer authorized to do so by the Board of Directors and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

SECTION 4. CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman shall be the Chief Executive Officer of the Corporation, unless the Board of Directors designates another person to serve as the Chief Executive Officer, and except where by law the signature of the Chief Executive Officer is required, the Chairman shall possess the same power as the Chief Executive Officer to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. The Chairman shall also perform such other duties and may exercise such other powers as may from time to time be assigned by these By-Laws or by the Board of Directors.

SECTION 5. VICE CHAIRMAN. In the absence of the Chairman, the Vice Chairman, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. Except where by law the signature of the Chief Executive Officer is required, the Vice Chairman shall possess the same power as the Chief Executive Officer to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. During the absence or disability of the Chairman, the Vice Chairman shall exercise all powers and discharge all the duties of the Chairman. The Vice Chairman shall also perform such other duties and may exercise such other powers as may from time to time be assigned by these By-Laws or by the Board of Directors.

SECTION 6. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall, subject to the control of the Board of Directors and the Chairman (if the Chairman is not the Chief Executive Officer), have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chief Executive Officer shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these By-Laws, the Board of Directors or the Chief Executive Officer. If any bond, mortgage, contract and other instrument of the Corporation is required by law or otherwise to be signed by the president of a corporation and the Corporation does not have a President, the Chief Executive Officer shall be deemed to be the President of the Corporation and shall have the authority to execute such document. In the absence or disability of the Chairman and the Vice Chairman, or if there be none, the Chief Executive Officer shall preside at all meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall also perform such other duties and may exercise such other powers as may from time to time be assigned to such officer by these By-Laws or by the Board of Directors.

SECTION 7. PRESIDENT. At the request of the Chief Executive Officer or in the Chief Executive Officer's absence or in the event of the Chief Executive Officer's inability or refusal to act (and if there be no Chairman or Vice Chairman), the President shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe.

SECTION 8. VICE PRESIDENTS. At the request of the Chief Executive Officer or in the Chief Executive Officer's absence or in the event of the Chief Executive Officer's inability or refusal to act (and if there be no Chairman, Vice Chairman or President), the Vice President, or the Vice Presidents if there is more than one (in the order designated by the Board of Directors), shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Chairman, Vice Chairman, President and no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the Chief Executive Officer or in the event of the inability or refusal of the Chief Executive Officer to act, shall perform the duties

of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer.

SECTION 9. SECRETARY. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for committees of the Board of Directors when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chairman, the Vice Chairman or the Chief Executive Officer, under whose supervision the Secretary shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the Chief Executive Officer may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest to the affixing by such officer's signature. The Secretary shall see that all books,

reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

SECTION 10. TREASURER. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of the office of the Treasurer and for the restoration to the Corporation, in case of the Treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the Treasurer's possession or under the Treasurer's control belonging to the Corporation.

SECTION 11. ASSISTANT SECRETARIES. Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be

assigned to them by the Board of Directors, the Chief Executive Officer, President, if there be one, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of the Secretary's disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

SECTION 12. ASSISTANT TREASURERS. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, President, if there be one, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of the Treasurer's disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of the office of Assistant Treasurer and for the restoration to the Corporation, in case of the Assistant Treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the Assistant Treasurer's possession or under the Assistant Treasurer's control belonging to the Corporation.



SECTION 13. OTHER OFFICERS. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

#### ARTICLE V

##### STOCK

SECTION 1. FORM OF CERTIFICATES. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman, Vice Chairman, the Chief Executive Officer, President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by such stockholder in the Corporation.

SECTION 2. SIGNATURES. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

SECTION 3. LOST CERTIFICATES. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or the owner's legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate.

SECTION 4. TRANSFERS. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by such person's attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued. No transfer of stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

SECTION 5. RECORD DATE.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; providing, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record

date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in this State, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolutions taking such prior action.

(c) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed,

the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

SECTION 6. RECORD OWNERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise required by law.

#### ARTICLE VI

##### NOTICES

SECTION 1. NOTICES. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at such person's address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in

the United States mail. Written notice may also be given personally or by telegram, telex or cable.

SECTION 2. WAIVERS OF NOTICE. Whenever any notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting, present in person or represented by proxy, shall constitute a waiver of notice of such meeting, except where the person attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

#### ARTICLE VII

##### GENERAL PROVISIONS

SECTION 1. DIVIDENDS. Dividends upon the capital stock of the Corporation, subject to the requirements of the DGCL and the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting of the Board of Directors (or any action by written consent in lieu thereof in accordance with Section 6 of Article III hereof), and may be paid in cash, in property, or in shares of the Corporation's capital stock. Before payment of

any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

SECTION 2. DISBURSEMENTS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

SECTION 3. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

SECTION 4. CORPORATE SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

#### ARTICLE VIII

##### AMENDMENTS

SECTION 1. AMENDMENTS. These By-Laws may be altered, amended or repealed, in whole or in part, or new By-Laws may be adopted by the stockholders or

by the Board of Directors, provided, however, that notice of such alteration, amendment, repeal or adoption of new By-Laws be contained in the notice of such meeting of stockholders or Board of Directors, as the case may be. All such amendments must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the entire Board of Directors then in office.

SECTION 2. ENTIRE BOARD OF DIRECTORS. As used in this Article VIII and in these By-Laws generally, the term "entire Board of Directors" means the total number of directors which the Corporation would have if there were no vacancies.

\* \* \*

Adopted as of:

Last Amended as of:                   , 1999



NUMBER  
P  
[PRICELINE.COM INCORPORATED LOGO]  
COMMON STOCK  
PAR VALUE \$0.008

SHARES  
COMMON STOCK

CUSIP 741503 10 6  
SEE REVERSE FOR CERTAIN DEFINITIONS

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

THIS CERTIFIES that  
IS THE RECORD OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, PAR VALUE \$0.008 PER SHARE, OF  
PRICELINE.COM INCORPORATED

(hereinafter called the "Corporation") transferable on the books of the Corporation by the holder hereof, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation and Bylaws of the Corporation and all amendments thereto, to all of which the holder by the acceptance hereof consents. This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

/s/ Melissa M. Taub  
Senior Vice President,  
General Counsel and Secretary

/s/ Richard S. Braddock  
Chairman and  
Chief Executive Officer

[CORPORATE SEAL]

COUNTERSIGNED AND REGISTERED:  
CHASEMELLON SHAREHOLDER SERVICES, L.L.C.  
TRANSFER AGENT AND REGISTRAR

BY  
AUTHORIZED SIGNATURE

The Corporation will furnish without charge to each stockholder who so requests, a copy of the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such requests shall be made to the Secretary of the Corporation at the principal office of the Corporation.

KEEP THIS STOCK CERTIFICATE IN A SAFE PLACE. If this stock certificate is lost, stolen, or destroyed, the Board of Directors of the Corporation may require the owner, or his legal representative, to give the Corporation a bond to indemnify the Corporation against any claim that may be made against them on account of the alleged loss, theft, or destruction of any such certificate as a condition to the issuance of a replacement certificate.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT- _____ Custodian _____ (Cust) (Minor)
TEN ENT - as tenants by the entireties	under Uniform Gifts to Minors
JT TEN - as joint tenants with right of survivorship and not as tenants in common	Act _____ (State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

-----  
\_\_\_\_\_

\_\_\_\_\_  
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING ZIP CODE OF ASSIGNEE)

\_\_\_\_\_  
Shares of the capital stock represented by the within Certificate, and do(es) hereby irrevocably constitute and appoint

\_\_\_\_\_  
Attorney to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated, \_\_\_\_\_

X \_\_\_\_\_

X \_\_\_\_\_

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

MEDALLION SIGNATURE GUARANTEED:

By \_\_\_\_\_

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO RULE 17Ad-15 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

Skadden, Arps, Slate, Meagher & Flom LLP  
919 Third Avenue  
New York, New York 10022

March 17, 1999

priceline.com Incorporated  
Five High Ridge Park  
Stamford, Connecticut 06905

Re: priceline.com Incorporated  
REGISTRATION STATEMENT ON FORM S-1

Ladies and Gentlemen:

We have acted as special counsel to priceline.com Incorporated, a Delaware corporation (the "Company"), in relation to the initial public offering by the Company of up to 11,500,000 shares (including shares subject to an over-allotment option) (the "Shares") of the Company's common stock, par value \$0.01 per share (the "Common Stock").

This opinion is being furnished in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act of 1933, as amended (the "Act").

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) the Registration Statement on Form S-1 (File No. 333- 69657) as filed with the Securities and Exchange Commission (the "Commission") on December 23, 1998 under the Act; (ii) Amendment No. 1 to the Registration Statement as filed with the Commission on February 16, 1999 under the Act; (iii) Amendment No. 2 to the Registration Statement as filed with the Commission on March 17, 1999 under the Act (such Registration Statement, as so amended, being hereinafter referred to as the "Registration Statement"); (iv) the form of Underwriting Agreement (the "Underwriting Agreement") proposed to be entered into by and among the Company, as issuer,

and Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BancBoston Robertson Stephens Inc. and Donaldson, Lufkin & Jenrette Securities Corporation, as representatives of the several U.S. underwriters named therein (the "U.S. Underwriters"), and Morgan Stanley & Co. International Limited, Merrill Lynch International, BancBoston Robertson Stephens, Inc. and Donaldson, Lufkin & Jenrette International, as the several international underwriters (the "International Underwriters" and together with the U.S. Underwriters, the "Underwriters") to be filed as an exhibit to the Registration Statement; (v) a specimen certificate representing the Common Stock; (vi) the Certificate of Incorporation of the Company, as currently in effect; (vii) the By-Laws of the Company, as currently in effect and (viii) certain resolutions of the Board of Directors of the Company, dated December 23, 1998, and drafts of certain resolutions (the "Draft Resolutions") of the Pricing Committee of the Board of Directors of the Company (the "Pricing Committee"), relating to the issuance and sale of the Shares and related matters. We also have examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company and such agreements, certificates of public officials, certificates of officers or other representatives of the Company and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of executed documents, we have assumed that the parties thereto, other than the Company, had the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof on such parties. As to any facts material to the opinions expressed herein which we have not independently established or verified, we have relied upon statements and representations of

officers and other representatives of the Company and others.

This opinion does not give effect to a proposed 1.25 for one stock split of the Common Stock which is expected to be effected prior to issuance of the Shares.

Members of our firm are admitted to the bar in the State of New York and we do not express any opinion as to the laws of any jurisdiction other than the General Corporation Law of the State of Delaware, and we do not express any opinion as to the effect of any other laws on the opinion stated herein.

Based upon and subject to the foregoing, we are of the opinion that when (i) the Registration Statement becomes effective under the Act; (ii) the Draft Resolutions have been adopted by the Pricing Committee; (iii) the price at which the Shares are to be sold to the Underwriters pursuant to the Underwriting Agreement and other matters relating to the issuance and sale of the Shares have been approved by the Pricing Committee in accordance with the Draft Resolutions; (iv) the Underwriting Agreement has been duly executed and delivered; and (v) certificates representing the Shares in the form of the specimen certificate examined by us have been manually signed by an authorized officer of the transfer agent and registrar for the Common Stock and registered by such transfer agent and registrar, and have been delivered to and paid for by the Underwriters at a price per share not less than the per share par value of the Common Stock as contemplated by the Underwriting Agreement, the issuance and sale of the Shares will have been duly authorized, and the Shares will be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion with the Commission as Exhibit 5.1 to the Registration Statement. We also consent to the reference to us under the caption "Legal Matters" in the Registration Statement. In giving this consent, we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Skadden, Arps, Slate, Meagher & Flom LLP

0262438.03-New YorkS6A

PRICELINE.COM INCORPORATED  
1999 OMNIBUS PLAN

1. Establishment and Purpose.

There is hereby adopted the priceline.com Incorporated 1999 Omnibus Plan (the "Plan"). The Plan is intended to promote the interests of priceline.com Incorporated (the "Company") by providing employees of the Company with appropriate incentives and rewards to encourage them to enter into and continue in the employ of the Company and to acquire a proprietary interest in the long-term success of the Company; and to reward the performance of individual officers, other employees, consultants and directors in fulfilling their responsibilities for long-range achievements.

2. Definitions.

As used in the Plan, the following definitions apply to the terms indicated below:

- (a) "Affiliate" means an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act.
- (b) "Agreement" shall mean the written agreement between the Company and a Participant evidencing an Award.
- (c) "Award" means any Option, Restricted Stock or Other Stock-Based Award granted under the Plan.
- (d) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.
- (e) "Board" shall mean the Board of Directors of the Company.
- (f) "Cause" shall mean (1) the willful and continued failure by the Participant substantially to perform his or her duties and obligations to the Company (other than any such failure resulting from his or her incapacity due to physical or mental illness); (2) the willful engaging by the Participant in misconduct which is materially injurious to the

Company; (3) the commission by the Participant of a felony; or (4) the commission by the Participant of a crime against the Company which is materially injurious to the Company. For purposes of this Section 2(f), no act, or failure to act, on a Participant's part shall be considered "willful" unless done, or omitted to be done, by the Participant in bad faith and without reasonable belief that his or her action or omission was in the best interest of the Company. Determination of Cause shall be made by the Committee in its sole discretion.

- (g) "Change in Control" means the occurrence of any one of the following events:
- (i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding voting securities;
  - (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Effective Date, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stock holders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended;
  - (iii) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being con-

verted into voting securities of the surviving or parent entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving or parent entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person, directly or indirectly, acquired 25% or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates); or

- (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.
- (h) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.
- (i) "Committee" means the committee established by the Board to administer the Plan, the composition of which shall at all times satisfy the provisions Section 162(m) of the Code. Each member of the Committee shall be a Non-Employee Director as defined in Rule 16b-3 under the Exchange Act.
- (j) "Company" means priceline.com Incorporated, a corporation organized under the laws of the State of Delaware, or any successor corporation.
- (k) "Director" shall mean a member of the Board.



- (l) "Disability" shall mean: (1) any physical or mental condition that would qualify a Participant for a disability benefit under the long-term disability plan maintained by the Company and applicable to him or her; (2) when used in connection with the exercise of an Incentive Stock Option following termination of employment, disability within the meaning of Section 22(e)(3) of the Code, or (3) such other condition as may be determined in the sole discretion of the Committee to constitute Disability.
- (m) "Effective Date" shall mean the effective date of the Initial Public Offering, provided that the Plan had been approved by the stockholders of the Company prior to the Initial Public Offering.
- (n) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.
- (o) "Executive Officer" shall have the meaning set forth in Rule 3b-7 promulgated under the Exchange Act.
- (p) The "Fair Market Value" of a share of Stock as of a particular date shall mean the closing sales price per share of Stock on the national securities exchange on which the Stock is principally traded, for the last preceding date on which there was a sale of such Stock on such exchange.
- (q) "Incentive Stock Option" shall mean an Option that is an "incentive stock option" within the meaning of Section 422 of the Code, or any successor provision, and that is designated by the Committee as an Incentive Stock Option.
- (r) "Initial Public Offering" shall mean the initial public offering of shares of Stock of the Company, as more fully described in the preliminary Registration Statement on Form S-1 intended to be filed with the Securities and Exchange Commission on or about December 23, 1998, as such Registration Statement may be amended from time to time.

- (s) "Issue Date" shall mean the date established by the Company on which certificates representing Restricted Stock shall be issued by the Company pursuant to the terms of Section 8(e).
- (t) "Non-Employee Director" shall mean a member of the Board who is not and has never been an employee of the Company.
- (u) "Non-Qualified Option" shall mean an Option other than an Incentive Stock Option.
- (v) "Option" shall mean an option to purchase a number of shares of Stock granted pursuant to Section 7.
- (w) "Other Stock-Based Award" shall mean an award granted pursuant to Section 9 hereof.
- (x) "Partial Exercise" shall mean an exercise of an Award for less than the full extent permitted at the time of such exercise.
- (y) "Participant" shall mean (1) an employee [or consultant] of the Company to whom an Award is granted pursuant to the Plan and (2) upon the death of an individual described in (1), his or her successors, heirs, executors and administrators, as the case may be.
- (z) "Performance Goals" means performance goals based on one or more of the following criteria: (i) pre-tax income or after-tax income, (ii) operating profit, (iii) return on equity, as sets, capital or investment, (iv) earnings or book value per share, (v) sales or revenues, (vi) operating expenses, (vii) Stock price appreciation and (viii) implementation or completion of critical projects or processes. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company, a Subsidiary or Affiliate, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Committee. The Performance Goals may include a threshold level of performance below which no vesting will occur, levels of

performance at which specified vesting will occur, and a maximum level of performance at which full vesting will occur. Each of the foregoing Performance Goals shall be determined in accordance with generally accepted accounting principles and shall be subject to certification by the Committee; provided that the Committee shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles.

- (aa) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an underwriter temporarily holding securities pursuant to an offering of such securities or (4) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Stock of the Company.
- (bb) "Plan" means the priceline.com 1999 Omnibus Plan, as amended from time to time.
- (cc) "Reload Option" shall mean a Non-Qualified Stock Option granted pursuant to Section 7(c)(5).
- (dd) "Restricted Stock" shall mean a share of Stock which is granted pursuant to the terms of Section 8 hereof and which is subject to the restrictions set forth in Section 8(c).
- (ee) "Rule 16b-3" shall mean the Rule 16b-3 promulgated under the Exchange Act, as amended from time to time.
- (ff) "Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

(gg) "Stock" means shares of the common stock, par value \$.01 per share, of the Company.

(hh) "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of granting of an Award, each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(ii) "Vesting Date" shall mean the date established by the Committee on which Restricted Stock may vest.

### 3. Stock Subject to the Plan.

The maximum number of shares of Stock reserved for the grant or settlement of Awards under the Plan shall be 7,500,000 shares subject to adjustment as provided here in. No more than 7,500,000 shares of Stock may be awarded in respect of Options, no more than 2,500,000 shares of Stock may be awarded in respect of Restricted Stock and no more than 5,000,000 shares of Stock may be awarded in respect of Other Stock-Based Awards to a single individual in any given year during the life of the Plan, which amounts shall be subject to adjustment as provided herein. Determinations made in respect of the limitation set forth in the preceding sentence shall be made in a manner consistent with Section 162(m) of the Code. Such shares may, in whole or in part, be authorized but unissued shares or shares that shall have been or may be reacquired by the Company in the open market, in private transactions or otherwise. If any shares subject to an Award are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the holder of such Award, the shares of Stock with respect to such Award shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Awards under the Plan.

Except as provided in an Award Agreement, in the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Stock, or other property), recapitalization, Stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of holders of Awards under the Plan, then the Committee shall make such equitable changes or

adjustments as it deems necessary or appropriate to any or all of (i) the number and kind of shares of Stock or other property (including cash) that may thereafter be issued in connection with Awards, (ii) the number and kind of shares of Stock or other property (including cash) issued or issuable in respect of outstanding Awards, (iii) the exercise price, grant price, or purchase price relating to any Award; provided that, with respect to Incentive Stock Options, such adjustment shall be made in accordance with Section 424(h) of the Code, (iv) the Performance Goals and (v) the individual limitations applicable to Awards.

#### 4. Administration of the Plan.

The Plan shall be administered by the Committee. The Committee shall have the authority in its sole discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including, with out limitation, the authority to grant Awards; to determine the persons to whom and the time or times at which Awards shall be granted; to determine the type and number of Awards to be granted, the number of shares of Stock to which an Award may relate and the terms, conditions, restrictions and Performance Goals relating to any Award; to determine whether, to what extent, and under what circumstances an Award may be settled, canceled, forfeited, exchanged, or surrendered; to make adjustments in the Performance Goals in recognition of unusual or non-recurring events affecting the Company or the financial statements of the Company (to the extent not inconsistent with Section 162(m) of the Code, if applicable), or in response to changes in applicable laws, regulations, or accounting principles; to construe and interpret the Plan and any Award; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of Agreements; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

The Committee may, in its absolute discretion, without amendment to the Plan, (a) accelerate the date on which any Option granted under the Plan becomes exercisable, waive or amend the operation of Plan provisions respecting exercise after termination of employment or otherwise adjust any of the terms of such Option, (b) accelerate the Vesting Date or waive any condition imposed hereunder with respect to any Restricted Stock and (c) otherwise adjust any of the terms applicable to any Award; PROVIDED, HOWEVER, in each case, that in the event of the occurrence of a Change in Control, the provisions of Section 10 hereof shall govern vesting and exercisability schedule of any Award granted hereunder.

No member of the Committee shall be liable for any action, omission or determination relating to the Plan, and the Company shall indemnify (to the extent permitted under Delaware law) and hold harmless each member of the Committee and each other director or employee of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been delegated against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Committee) arising out of any action, omission or determination relating to the Plan, unless, in either case, such action, omission or determination was taken or made by such member, director or employee in bad faith and without reasonable belief that it was in the best interests of the Company.

5. Eligibility.

Incentive Stock Options shall be granted only to key employees (including officers and directors who are also employees) of the Company, its parent or any of its Subsidiaries. All other Awards may be granted to officers, independent contractors, key employees and non-employee directors of the Company or of any of its Subsidiaries and Affiliates.

6. Awards Under the Plan; Agreement.

The Committee may grant Options, Restricted Stock and Other Stock-Based Awards in such amounts and with such terms and conditions as the Committee shall determine, subject to the provisions of the Plan.

Each Award granted under the Plan shall be evidenced by an Agreement which shall contain such provisions as the Committee may in its sole discretion deem necessary or desirable. By accepting an Award, a Participant thereby agrees that the award shall be subject to all of the terms and provisions of the Plan and the applicable Agreement.

7. Options.

- (a) Identification of Options. Each Option shall be clearly identified in the applicable Agreement as either an Incentive Stock Option or a Non-Qualified Option.

- (b) Exercise Price. Each Agreement with respect to an Option shall set forth the exercise price per share of Stock payable by the grantee to the Company upon exercise of the Option. The exercise price per share of Stock shall be determined by the Committee; provided, however, that in no case shall an Option have an exercise price per share of Stock that is less than the Fair Market Value of a share of Stock on the date the Option is granted.
- (c) Term and Exercise of Options.
- (1) Unless the applicable Agreement provides otherwise, an Option shall become cumulatively exercisable as to 33 1/3% percent of the Units covered thereby on each of the first, second and third anniversaries of the date of grant. The Committee shall determine the expiration date of each Option; PROVIDED, HOWEVER, that no Option shall be exercisable more than 10 years after the date of grant. Unless the applicable Agreement provides otherwise and except in the event of a Change in Control, no Option shall be exercisable prior to the first anniversary of the date of grant.
  - (2) An Option may be exercised for all or any portion of the Stock as to which it is exercisable, provided that no Partial Exercise of an Option shall be for an aggregate exercise price of less than \$100.00. The Partial Exercise of an Option shall not cause the expiration, termination or cancellation of the remaining portion thereof.
  - (3) An Option shall be exercised by delivering notice to the Company's principal office, to the attention of its Secretary. Such notice shall be accompanied by the applicable Agreement, shall specify the number of shares of Stock with respect to which the Option is being exercised and the effective date of the proposed exercise and shall be signed by the Participant or other person then having the right to exercise the Option. Payment for Stock purchased upon the exercise of an Option shall be made on the effective date of such exercise by one or a combination of the following means: (i) in cash or by personal check, certified check, bank cashier's check or wire

transfer; (ii) subject to the approval of the Committee, in Stock owned by the Participant for at least six months prior to the date of exercise and valued at their Fair Market Value on the effective date of such exercise; or (iii) subject to the approval of the Committee, by such other provision as the Committee may from time to time authorize.

- (4) Certificates for Stock purchased upon the exercise of an Option shall be issued in the name of the Participant or other person entitled to receive such Stock, and delivered to the Participant or such other person as soon as practicable following the effective date on which the Option is exercised.
- (5) The Committee shall have the authority to specify, at the time of grant or, with respect to Non-Qualified Options, at or after the time of grant, that a Participant shall be granted a new Non-Qualified Option (a "Reload Option") for a number of shares of Stock equal to the number of shares of Stock surrendered by the Participant upon exercise of all or a part of an Option in the manner described in Section 7(c)(3)(ii) above, subject to the availability of Stock under the Plan at the time of such exercise; provided, however, that no Reload Option shall be granted to a Non-Employee Director. Reload Options shall be subject to such conditions as may be specified by the Committee in its discretion, subject to the terms of the Plan.

(D) LIMITATIONS ON INCENTIVE STOCK OPTIONS.

- (1) To the extent that the aggregate Fair Market Value of Stock of the Company with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan and any other option plan of the Company (or any Subsidiary) shall exceed \$100,000, such Options shall be treated as Non-Qualified Options. Such Fair Market Value shall be determined as of the date on which each such Incentive Stock Option is granted.
- (2) No Incentive Stock Option may be granted to an individual if, at the time of the proposed grant; such individual owns (or is



attributed to own by virtue of the Code) Stock possessing more than ten (10) percent of the total combined voting power of all classes of stock of the Company or any Subsidiary unless (i) the exercise price of such Incentive Stock Option is at least 110 percent of the Fair Market Value of a share of Stock at the time such Incentive Stock Option is granted and (ii) such Incentive Stock Option is not exercisable after the expiration of five years from the date such Incentive Stock Option is granted.

(E) EFFECT OF TERMINATION OF EMPLOYMENT.

- (1) Unless the applicable Agreement provides otherwise, in the event that the employment[, directorship or consultancy (to gether, hereinafter referred to as "employment")] of a Participant with the Company shall terminate for any reason other than Cause, Disability or death, (i) Options granted to such Participant, to the extent that they are exercisable at the time of such termination, shall remain exercisable until the date that is 90 days after such termination, on which date they shall expire, and (ii) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. The 90 day period described in this Section 7(e)(1) shall be extended to one year from such termination, in the event of the Participant's death during such 90 day period. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.
- (2) Unless the applicable Agreement provides otherwise, in the event that the employment of a Participant with the Company shall terminate on account of the Disability or death of the Participant, (i) Options granted to such Participant, to the extent that they were exercisable at the time of such termination, shall remain exercisable until the first anniversary of such termination, on which date they shall expire, and (ii) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination;

provided, however, that no Option shall be exercisable after the expiration of its term.

- (3) In the event of the termination of a Participant's employment for Cause, all outstanding Options granted to such Participant shall expire as of the commencement of business on the date of such termination.

8. Restricted Stock.

- (a) ISSUE DATE AND VESTING DATE. At the time of the grant of Restricted Stock, the Committee shall establish an Issue Date or Issue Dates and a Vesting Date or Vesting Dates with respect to such shares of Restricted Stock. The Committee may divide such shares of Restricted Stock into classes and assign a different Issue Date and/or Vesting Date for each class. If the grantee is employed by the Company on an Issue Date (which may be the date of grant), the specified number of shares of Restricted Stock shall be issued in accordance with the provisions of Section 8(e). Provided that all conditions to the vesting of Restricted Stock imposed pursuant to Section 8(b) are satisfied, and except as provided in Section 8(g), upon the occurrence of the Vesting Date with respect to Restricted Stock, such Restricted Stock shall vest and the restrictions of Section 8(c) shall lapse.
- (b) CONDITIONS TO VESTING. At the time of the grant of Restricted Stock, the Committee may impose such restrictions or conditions to the vesting of such Restricted Stock as it, in its absolute discretion, deems appropriate, including the attainment of Performance Goals.
- (c) RESTRICTIONS ON TRANSFER PRIOR TO VESTING. Prior to the vesting of any Restricted Stock, no transfer of a Participant's rights with respect to such Restricted Stock, whether voluntary or involuntary, by operation of law or otherwise, shall be permitted. Immediately upon any attempt to transfer such rights, such Restricted Stock, and all of the rights related thereto, shall be forfeited by the Participant.
- (d) DIVIDENDS ON RESTRICTED STOCK. The Committee in its discretion may require that any dividends or distributions paid on Restricted Stock be

held in escrow until all restrictions on such Restricted Stock has lapsed.

(e) ISSUANCE OF CERTIFICATES.

- (1) Reasonably promptly after the Issue Date with respect to Restricted Stock, the Company shall cause to be issued a certificate, registered in the name of the Participant to whom such shares of Restricted Stock were granted, evidencing such shares of Restricted Stock; provided that the Company shall not cause such a certificate to be issued unless it has received a power of attorney duly endorsed in blank with respect to such shares of Restricted Stock. Each such certificate shall bear the following legend:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE STOCK REPRESENTED HEREBY ARE SUBJECT TO THE RESTRICTIONS, TERMS AND CONDITIONS (INCLUDING FORFEITURE PROVISIONS AND RESTRICTIONS AGAINST TRANSFER) CONTAINED IN THE PRICELINE.COM 1999 OMNIBUS PLAN AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER OF SUCH STOCK AND PRICELINE.COM. A COPY OF THE 1999 OMNIBUS PLAN AND AGREEMENT IS ON FILE WITH THE SECRETARY OF THE COMPANY.

Such legend shall not be removed until such Stock vests pursuant to the terms hereof.

- (2) Each certificate issued pursuant to this Section 8(e), together with the powers relating to the Restricted Stock evidenced by such certificate, shall be held by the Company unless the Committee determines otherwise.
- (f) CONSEQUENCES OF VESTING. Upon the vesting of any Restricted Stock pursuant to the terms hereof, the restrictions of Section 8(c) shall lapse with respect to such Restricted Stock. Reasonably promptly after any Restricted Stock vests, the Company shall cause to be delivered to the Participant to whom such shares of Restricted Stock were granted a certificate evidencing such Stock, free of the legend set forth in Section 8(e).

- (g) EFFECT OF TERMINATION OF EMPLOYMENT. Subject to such other provision as the Committee may set forth in the applicable Agreement, and to the Committee's amendment authority pursuant to Section 4, upon the termination of a Participant's employment for any reason other than Cause, any and all Stock to which restrictions on transferability apply shall be immediately forfeited by the Participant and transferred to, and reacquired by, the Company; provided that if the Committee, in its sole discretion, shall within thirty (30) days after such termination of employment notify the Participant in writing of its decision not to terminate the Participant's rights in such shares of Stock, then the Participant shall continue to be the owner of such shares of Stock subject to such continuing restrictions as the Committee may prescribe in such notice. In the event of a forfeiture of Stock pursuant to this section, the Company shall repay to the Participant (or the Participant's estate) any amount paid by the Participant for such shares of Stock. In the event that the Company requires a return of Stock, it shall also have the right to require the return of all dividends or distributions paid on such Stock, whether by termination of any escrow arrangement under which such dividends or distributions are held or otherwise.
- (1) In the event of the termination of a Participant's employment for Cause, all shares of Restricted Stock granted to such Participant which have not vested as of the date of such termination shall immediately be returned to the Company, together with any dividends or distributions paid on such shares of Stock, in return for which the Company shall repay to the Participant any amount paid by the Participant for such shares of Stock.
- (h) SPECIAL PROVISIONS REGARDING AWARDS. Notwithstanding anything to the contrary contained herein, Restricted Stock granted pursuant to this Section 8 to Executive Officers may be based on the attainment by the Company (or a Subsidiary or division of the Company if applicable) of Performance Goals pre-established by the Committee.

9. Other Stock-Based Awards.

Other forms of Awards valued in whole or in part by reference to, or otherwise based on, shares of Stock ("Other Stock-Based Awards") may be granted either alone or in addition to other Awards under the Plan. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock-Based Awards shall be granted, the number of shares of Stock to be granted pursuant to such Other Stock-Based Awards and all other conditions of such Other Stock-Based Awards, including the attainment of Performance Goals.

10. Change in Control.

Notwithstanding anything in this Plan to the contrary, upon the occurrence of a Change in Control, any Award carrying a right to exercise that was not previously exercisable and vested shall become fully exercisable and vested and the restrictions, and forfeiture conditions applicable to any other Award granted under the Plan shall lapse and such Award shall be deemed fully vested. Notwithstanding anything in the Plan to the contrary, upon the occurrence of a Change in Control, the purchaser(s) of the Company's assets or stock may, in his, her, or its discretion, deliver to the holder of an Award the same kind of consideration that is delivered to the stockholders of the Company as a result of such sale, conveyance or Change in Control, or the Board may cancel all outstanding Options in exchange for consideration in cash or in kind which consideration in both cases shall be equal in value to the higher of (i) the Fair Market Value of those shares of Stock or other securities the holder of such Option would have received had the Option been exercised and no disposition of the shares acquired upon such exercise been made prior to such sale, conveyance or Change in Control, less the exercise price therefor, and (ii) the Fair Market Value of those shares of Stock or other securities the holder of the Option would have received had the Option been exercised and no disposition of the shares acquired upon such exercise been made immediately following such sale, conveyance or Change in Control, less the exercise price therefor.

Upon dissolution or liquidation of the Company, all Options and other Awards granted under this Plan shall terminate, but each holder of an Option shall have the right, immediately prior to such dissolution or liquidation, to exercise his or her Option to the extent then exercisable.

11. Rights as a Stockholder.

No person shall have any rights as a stockholder with respect to any shares of Stock covered by or relating to any Award until the date of issuance of a certificate with respect to such shares of Stock. Except as otherwise expressly provided in Section 3(b), no adjustment to any Award shall be made for dividends or other rights prior to the date such certificate is issued.

12. No Special Employment Rights; No Right to Award.

Nothing contained in the Plan or any Agreement shall confer upon any Participant any right with respect to the continuation of employment by the Company or interfere in any way with the right of the Company, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the compensation of the Participant.

No person shall have any claim or right to receive an Award hereunder. The Committee's granting of an Award to a participant at any time shall neither require the Committee to grant any other Award to such Participant or other person at any time or preclude the Committee from making subsequent grants to such Participant or any other person.

13. Securities Matters.

- (a) The Company shall be under no obligation to effect the registration pursuant to the Securities Act of any interests in the Plan or any Stock to be issued hereunder or to effect similar compliance under any state laws. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued or delivered any certificates evidencing Stock pursuant to the Plan unless and until the Company is advised by its counsel that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which shares of Stock are traded. The Committee may require, as a condition of the issuance and delivery of certificates evidencing shares of Stock pursuant to the terms hereof, that the recipient of such shares of Stock make such agreements and representations, and that such certificates bear such legends, as the Committee, in its sole discretion, deems necessary or desirable.
- (b) The transfer of any shares of Stock hereunder shall be effective only at such time as counsel to the Company shall have determined that the issuance and delivery of such shares of Stock is in compliance with all applicable laws, regulations of governmental authority, the requirements of any securities exchange on which shares of Stock are traded. The Committee may, in its sole discretion, defer the effectiveness of any transfer of Stock hereunder in order to allow the issuance of such Stock to be made pursuant to registration or an exemption from registration or other methods for compliance available under federal or state securities laws. The Committee shall inform the Participant in writing of its decision to defer the effectiveness of a transfer. During the period of such deferral in connection with the exercise of an Option, the Participant may, by written notice, withdraw such exercise and obtain the refund of any amount paid with respect thereto.

14. Withholding Taxes.

Whenever shares of Stock are to be delivered pursuant to an Award, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy any federal, state and local withholding tax

requirements related thereto. With the approval of the Committee, a Participant may satisfy the foregoing requirement by electing to have the Company withhold from delivery shares of Stock having a value equal to the amount of tax to be withheld. Such shares of Stock shall be valued at their Fair Market Value on the date of which the amount of tax to be withheld is determined (the "Tax Date"). Fractional shares of Stock amounts shall be settled in cash. Such a withholding election may be made with respect to all or any portion of the Stock to be delivered pursuant to an Award.

15. Notification of Election Under Section 83(b) of the Code.

If any Participant shall, in connection with the acquisition of Stock under the Plan, make the election permitted under Section 83(b) of the Code (i.e., an election to include in gross income in the year of transfer the amounts specified in Section 83(b)), such Participant shall notify the Company of such election within 10 days of filing notice of the election with the Internal Revenue Service, in addition to any filing and a notification required pursuant to regulation issued under the authority of Section 83(b) of the Code.

16. Notification Upon Disqualifying Disposition Under Section 421(b) of the Code.

Each Participant shall notify the Company of any disposition of Stock issued pursuant to the exercise of an Incentive Stock Option under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), within 10 days of such disposition.

17. Amendment or Termination of the Plan.

The Board may, at any time, suspend or terminate the Plan or revise or amend it in any respect whatsoever; provided, however, that stockholder approval shall be required if and to the extent the Board determines that such approval is appropriate for purposes of satisfying Section 162(m) or 422 of the Code or is otherwise required by law or applicable stock exchange requirements. Awards may be granted under the Plan prior to the receipt of such approval but each such grant shall be subject in its entirety to such approval and no award may be exercised, vested or otherwise satisfied prior to the receipt of such approval. Nothing herein shall restrict the Committee's ability to exercise its discretionary authority pursuant to Section 4, which discretion may be exercised without amendment to the Plan. No



action hereunder may, without the consent of a Participant, reduce the Participant's rights under any outstanding Award.

18. Transfers Upon Death; Nonassignability.

Upon the death of a Participant, outstanding Awards granted to such Participant may be exercised only by the executor or administrator of the Participant's estate or by a person who shall have acquired the right to such exercise by will or by the laws of descent and distribution. No transfer of an Award by will or the laws of descent and distribution shall be effective to bind the Company unless the Committee shall have been furnished with (a) written notice thereof and with a copy of the will and/or such evidence as the Committee may deem necessary to establish the validity of the transfer and (b) an agreement by the transferee to comply with all the terms and conditions of the Award that are or would have been applicable to the Participant and to be bound by the acknowledgments made by the Participant in connection with the grant of the Award.

During a Participant's lifetime, the Committee may permit the transfer, assignment or other encumbrance of an outstanding Option unless (y) such Option is an Incentive Stock Option and the Committee and the Participant intend that it shall retain such status, or (z) such Option is meant to qualify for the exemptions available under Rule 16b-3, nontransferability is necessary under Rule 16b-3 in order for the award to so qualify and the Committee and the Participant intend that it shall continue to so qualify. Subject to any conditions as the Committee may prescribe, a Participant may, upon providing written notice to the Secretary of the Company, elect to transfer any or all Options granted to such Participant pursuant to the Plan to members of his or her immediate family, including, but not limited to, children, grandchildren and spouse or to trusts for the benefit of such immediate family members or to partnerships in which such family members are the only partners; provided, however, that no such transfer by any Participant may be made in exchange for consideration.

19. Expenses and Receipts.

The expenses of the Plan shall be paid by the Company. Any proceeds received by the Company in connection with any Award will be used for general corporate purposes.

20. Failure to Comply.

In addition to the remedies of the Company elsewhere provided for herein, failure by a Participant (or beneficiary) to comply with any of the terms and conditions of the Plan or the applicable Agreement, unless such failure is remedied by such Participant (or beneficiary) within ten days after notice of such failure by the Committee, shall be grounds for the cancellation and forfeiture of such Award, in whole or in part, as the Committee, in its absolute discretion, may determine.

21. Effective Date and Term of Plan.

The Plan became effective on the Effective Date and, unless earlier terminated by the Board, the right to grant Awards under the Plan will terminate on the tenth anniversary of the Effective Date. Awards outstanding at Plan termination will remain in effect according to their terms and the provisions of the Plan.

22. Applicable Law.

Except to the extent preempted by any applicable federal law, the Plan will be construed and administered in accordance with the laws of the State of Delaware, without reference to its principles of conflicts of law.

23. Participant Rights.

No Participant shall have any claim to be granted any award under the Plan, and there is no obligation for uniformity of treatment for Participants. Except as provided specifically herein, a Participant or a transferee of an Award shall have no rights as a stockholder with respect to any shares of Stock covered by any award until the date of the issuance of a certificate or certificates to him or her for such shares of Stock.

24. Unfunded Status of Awards.

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Agreement shall give any such Participant any rights that are greater than those of a general creditor of the Company.

25. Beneficiary.

A Participant may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the grantee's beneficiary.

26. Interpretation.

The Plan is designed and intended to comply with Rule 16b-3 and, to the extent applicable, with Section 162(m) of the Code, and all provisions hereof shall be construed in a manner to so comply.

27. Severability.

If any provision of the Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected but shall be applied as if the invalid or unenforceable provision had not been included in the Plan.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of August 15, 1998 by and between priceline.com Incorporated, a Delaware corporation ("PriceLine") and Mr. Richard Braddock, a resident of the State of Connecticut (the "Employee").

WHEREAS, PriceLine desires that the Employee serve, and the Employee desires to serve, as the Chairman and Chief Executive Officer of PriceLine under the terms and conditions of this Agreement; and

NOW, THEREFORE, intending to be legally bound hereby, the parties agree as follows:

1. Employment.

(a) PriceLine hereby agrees to employ the Employee, and the Employee hereby agrees to serve, as the Chairman and Chief Executive Officer of PriceLine upon the terms and subject to the conditions set forth herein.

(b) During the Term (as defined herein), the Employee shall serve as the Chairman and Chief Executive Officer of PriceLine and shall have such responsibilities, duties and authority consistent with such position as may from time to time be determined by the Board of Directors of PriceLine.

(c) During the Term, the Employee shall diligently and faith fully serve PriceLine and shall devote a majority of his working time and efforts to the business and affairs of PriceLine at a location in the greater New York metro politan area. PriceLine agrees that the Employee may retain his current position and responsibilities as non-executive chairman of True North Communications, Inc. ("True North").

2. Term. Subject to Section 4 hereof, the term of the employ ment by PriceLine of the Employee pursuant to this Agreement (the "Term") is for a period commencing on the date of this Agreement and terminating on the third anniversary thereof.

3. Compensation.

(a) Base Salary. In partial consideration of the Employee's services to be rendered pursuant hereto and the Employee's agreement to the covenants and restrictions set forth in Section 6 hereof, PriceLine shall pay to the Employee, effective as of the date hereof, an annual base salary of \$300,000 (the "Base Salary"), such salary to be payable to the Employee in semi-monthly installments in accordance with PriceLine's customary payroll practices. In the event that PriceLine becomes a public company during the Term, PriceLine agrees that its Compensation Committee shall review the Employee's Base Salary and make any upward adjustments thereto that such Committee shall deem appropriate.

(b) Cash Bonus. The Employee shall be eligible to participate in any cash bonus program introduced by PriceLine at a level commensurate with the Employee's position and responsibility.

(c) PriceLine Option.

(i) PriceLine previously granted to the Employee an option (the "Option") to purchase 5,000,000 shares of PriceLine common stock ("PriceLine Shares"), which represent approximately 4.7% of outstanding common stock of PriceLine on a fully diluted basis, pursuant to the terms of an Option Agreement between PriceLine and Employee dated July 23, 1998 (the "Option Agreement"), a copy of which is attached hereto as Exhibit A.

(ii) The Option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(iii) As set forth in the Option Agreement and subject to Sections 3(iv) and 4(a)-(e) hereof, the Option shall be exercisable at an aggregate exercise price of \$5,000,000, or a per security exercise price of \$1.00 per PriceLine Share (the "Exercise Price").

(iv) The Option shall vest as to (A) 3,000,000 of the PriceLine Shares underlying the Option on the earlier to occur of (x) PriceLine having a public market capitalization of \$750 million for five consecutive trading days (for purposes of the foregoing, "public market capitalization" shall be defined as the closing price of PriceLine common stock multiplied by the number of fully diluted shares of outstanding PriceLine common stock as determined in accordance

with generally accepted accounting principles (GAAP)), (y) PriceLine having pre-tax operating income of \$30 million over a twelve month period occurring over four consecutive fiscal quarters, or (z) the ninth anniversary of the date of this Agreement; (B) 2,000,000 of the PriceLine Shares underlying the Option on the earlier to occur of (x) a PriceLine initial public offering, (y) the sale by PriceLine of at least \$50 million of equity at a pre-money valuation of \$450 million or greater, or (z) the ninth anniversary of the date of this Agreement.

(v) In the event that, following the date of this Agreement, PriceLine effects an extraordinary dividend or other extraordinary distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase or share exchange, or other similar corporate transaction or event that affects the common stock of PriceLine, such that an adjustment is appropriate to prevent dilution or enlargement of the rights of the Employee with respect to the Option, PriceLine shall make such equitable changes or adjustments as are deemed necessary or appropriate, to any or all of (A) the number and kind of equity securities for which the Option is exercisable and (B) the Exercise Price.

(vi) Except as otherwise specifically provided for in this Agreement, the Option shall be governed by the terms of the Omnibus PriceLine Option Plan and the Option Agreement.

(d) Benefits; Business Expenses/Car Allowance.

(i) During the Term, PriceLine shall provide the Employee with health, welfare and insurance benefits to the extent and on the same terms as it provides such benefits to its executive officers.

(ii) The Employee also shall be entitled to participate in and receive any fringe benefits or perquisites which may become available to PriceLine's executive officers.

(iii) The Employee shall be reimbursed for all reasonable direct, out-of-pocket business expenses incurred by him in connection with his employment (including, without limitation, expenses for travel and entertainment incurred in conducting or promoting business for PriceLine and home office and secretarial expenses) upon timely submission by the Employee of receipts and other documentation as required by the Code and in accordance with the normal expense reimbursement policies of PriceLine. In addition, PriceLine will reim-

burse the Employee for a pro rata portion of his expenses relating to his personal car and driver as determined in good faith by the Employee.

#### 4. Termination.

(a) Death. The employment by PriceLine of the Employee pursuant to this Agreement shall be terminated upon the death of the Employee. In the event that this Agreement is terminated pursuant to this Section 4(a), (i) the Employee's spouse or heirs shall be entitled to (A) the Base Salary and benefits to be paid or provided to the Employee under this Agreement through the Date of Termination (as defined herein) and, in the event PriceLine introduces a cash bonus program, a pro rata bonus under such plan; and (B) the Base Salary and benefits to be paid or provided to the Employee under this Agreement for the period commencing on the day after the Date of Termination and ending on the later of (x) the six (6) month anniversary of the Date of Termination or (y) the first anniversary of the date of this Agreement; and (ii) the Employee's executor, administrator or other person entitled by law to his rights under the Option shall be entitled to exercise the Option in accordance with the schedule and terms set forth in Section 3 hereof (with the performance criteria for vesting set forth in Section 3(c)(iv) to be met, if at all, prior to the third anniversary of the date of this Agreement) and Options shall be exercisable at any time prior to the later of (A) one year after the Date of Termination and (B) ninety days after the third anniversary of the date of this Agreement, provided that such Options are vested at the time of such exercise. In the event that this Agreement is terminated pursuant to this Section 4(a), and to the extent the Option is either not vested pursuant to Section 3(c)(iv) hereof or exercisable pursuant to this Section 4(a), the Option shall cease and be of no further force or effect.

(b) Disability. The employment by PriceLine of the Employee pursuant to this Agreement may be terminated by written notice to the Employee at the option of PriceLine, in the event that the Employee has been unable to perform his duties and responsibilities by reason of physical or mental illness or accident for any six (6) consecutive month period. In the event that this Agreement is terminated by PriceLine pursuant to this Section 4(b), the Employee shall be entitled to (i) the Base Salary and benefits to be paid or provided to the Employee under this Agreement through the Date of Termination and, in the event PriceLine introduces a cash bonus program, a pro rata bonus under such plan; (ii) the Base Salary and benefits to be paid or provided to the Employee under this Agreement for the period commencing on the day after the Date of Termination and ending on the later of (A) the six (6) month anniversary of the Date of

Termination or (B) the first anniversary date of this Agreement; and (iii) exercise the Option in accordance with the schedule and terms set forth in Section 3 hereof (with the performance criteria for vesting set forth in Section 3(c)(iv) to be met, if at all, prior to the third anniversary of the date of this Agreement) and Options shall be exercisable at any time prior to the later of (A) one year after the Date of Termination and (B) ninety days after the third anniversary of the date of this Agreement, provided that such Options are vested at the time of such exercise. In the event that this Agreement is terminated pursuant to this Section 4(b), and to the extent the Option is either not vested pursuant to Section 3(c)(iv) hereof or exercisable pursuant to this Section 4(b), the Option shall cease and be of no further force or effect.

(c) By PriceLine for Cause. This Agreement may be terminated by PriceLine for "Cause," which, for the purpose of this Agreement shall mean: (i) the commission by the Employee of fraud or dishonesty, or other act of intentional wrongdoing causing harm to PriceLine; (ii) the conviction of the Employee of a felony; (iii) any act of gross negligence or malfeasance by the Employee causing material harm to PriceLine; or (iv) any material breach by the Employee of this Agreement, including, without limitation, a breach of Section 1 or 6 hereof or the Confidentiality Agreement (as defined herein). In order to terminate this Agreement for Cause, PriceLine shall provide written notice to the Employee ("Notice of Termination") which shall specify the allegations that PriceLine believes to constitute Cause, and the Employee shall have thirty (30) days from receipt of such Notice of Termination to cure such Cause, if curable, provided that 4(c)(i) and 4(c)(i)(ii) above shall be deemed to be incurable. In the event the employment by PriceLine of the Employee is terminated pursuant to this Section 4(c), the Employee shall be entitled to the Base Salary and benefits to be paid or provided to the Employee under this Agreement through the Date of Termination; and the Option, whether or not then vested, may not be exercised at any time on or after the Date of Termination, and the Option shall cease and be of no further force or effect.

(d) By PriceLine Without Cause. The employment by PriceLine of the Employee pursuant to this Agreement may be terminated by PriceLine at any time without Cause by delivery of a Notice of Termination to the Employee. In the event that the employment by PriceLine of the Employee pursuant to this Agreement is terminated by PriceLine pursuant to this Section 4(d), the Employee shall be entitled to (i) the Base Salary and benefits to be paid or provided to the Employee under this Agreement through the Date of Termination and, in the event PriceLine introduces a cash bonus program, a pro rata



bonus under such plan; (ii) the Base Salary and benefits to be paid to the Employee under this Agreement for the period commencing on the day after the Date of Termination and ending on the later of (x) the first anniversary of the Date of Termination or (y) the end of the Term of this Agreement, payable in monthly installments; and (iii) exercise the Option in accordance with the schedule and terms set forth in Section 3 (with the performance criteria for vesting set forth in Section 3(c)(iv) to be met, if at all, prior to the third anniversary of the date of this Agreement) and Options shall be exercisable at any time prior to ninety days after the third anniversary of the date of this Agreement, provided that such Options are vested at the time of such exercise. In the event that this Agreement is terminated pursuant to this Section 4(d), and to the extent the Option is either not vested pursuant to Section 3(c)(iv) hereof or exercisable pursuant to this Section 4(d), the Option shall cease and be of no further force or effect.

(e) By the Employee. The employment of the Employee by PriceLine pursuant to this Agreement may be terminated by the Employee at any time by delivery of a written notice of resignation to PriceLine ("Notice of Resignation"). In the event the employment by PriceLine of the Employee pursuant to this Agreement is terminated by the Employee pursuant to this Section 4(e), the Employee shall be entitled to (i) the Base Salary and benefits to be paid or provided to the Employee under this Agreement through the Date of Termination; and (ii) exercise the Option, as to the number and type of securities for which the Option then would be exercisable, at any time prior to ninety (90) days after the Date of Termination. In the event that this Agreement is terminated pursuant to this Section 4(e), and to the extent the Option is either not vested pursuant to Section 3(c)(iv) hereof or exercisable pursuant to this Section 4(e), the Option shall cease and be of no further force or effect.

(f) Date of Termination. The Employee's Date of Termination shall be (i) if the Employee's employment by PriceLine is terminated pursuant to Section 4(a) hereof, the date of his death, (ii) if the Employee's employment by PriceLine is terminated pursuant to Section 4(b) hereof, the last day the Employee worked, (iii) if the Employee's employment by PriceLine is terminated pursuant to Section 4(c) or 4(d) hereof, the date on which a Notice of Termination is given and (iv) if the Employee's employment by PriceLine is terminated pursuant to Section 4(e) hereof, the date on which a Notice of Resignation is given.

5. Representations.

(a) PriceLine represents and warrants that (i) this Agreement has been authorized by all necessary corporate action of PriceLine and is a valid and binding agreement of PriceLine enforceable against it in accordance with its terms and (ii) all PriceLine Founders Shares and PriceLine Shares which may be issued pursuant to this Agreement shall be, when issued in accordance with the terms of this Agreement, duly authorized, validly issued, fully paid and nonassessable and free of any preemptive rights in respect thereto.

(b) The Employee represents and warrants that he is not a party to any agreement or instrument which would prevent him from entering into or performing his duties in any way under this Agreement and that this Agreement is a valid and binding agreement of the Employee enforceable against him in accordance with its terms.

6. Confidentiality; Non-Competition. As a condition to PriceLine's willingness to enter into this Agreement and in partial consideration of the grant of the PriceLine Founders Shares and the Option, the Employee agrees to the covenants and restrictions set forth in this Section 6.

(a) The Employee agrees that, during the Term and for a period of two (2) years thereafter, he shall not, directly or indirectly, induce or solicit (or authorize or assist in the taking of any such actions by any third party) any employee or consultant of PriceLine or any of its affiliates to leave his or her business association with such entity.

(b) The Employee acknowledges and agrees that, during the course of the provision of the Employee's services to PriceLine, the Employee may be exposed to confidential, proprietary or sensitive data and information concerning the business and affairs of PriceLine, and that all such data and information constitutes a protectable business interest of PriceLine. In furtherance of such business interest, the Employee is contemporaneously herewith executing and delivering to PriceLine the standard consultant confidentiality agreement for PriceLine (the "Confidentiality Agreement").

(c) The Employee agrees that he will not at any time during the Term and, (i) for a period of one (1) year following the Date of Termination, directly or indirectly, own any interest in, operate, join, control or participate as a director, stockholder, owner, partner, principal, officer or agent of, enter into the

employment of, act as a consultant to, or perform any services for, any entity that is engaged anywhere in the United States of America in a business substantially similar to PriceLine whereby customers are directed to make an offer to purchase goods and services and such demand is provided to potential sellers. Notwithstanding anything herein to the contrary, this Section 6 shall not prevent the Employee from acquiring securities representing not more than one percent (1%) of the outstanding voting securities of any publicly held corporation. It is the desire and intent of the parties that the provisions of this Section 6(c) shall be enforced to the fullest extent permitted under applicable law. If all or part of this Section 6(c) is held invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect. If any part of this Section 6(c) is ultimately determined to be excessively broad as to duration, scope, activity or subject, such part will be construed by limiting and reducing it so as to be enforceable to the maximum extent compatible with applicable law.

(d) The Employee acknowledges and agrees that each of the covenants set forth in this Section 6 and in the Confidentiality Agreement are reasonable and necessary for the protection of PriceLine's business interests, that irreparable injury will result to PriceLine if the Employee breaches any of the terms of said covenants, and that in the event of the Employee's actual or threatened breach of any such covenants, PriceLine will have no adequate remedy at law. The Employee accordingly agrees that in the event of any actual or threatened breach by the Employee of any of said covenants, PriceLine shall be entitled to immediate injunctive and other equitable relief without bond and without the necessity of showing actual monetary damages. Notwithstanding the provisions of Section 13 hereof, such equitable relief may be sought in any court of competent jurisdiction. Nothing contained herein shall be construed as prohibiting PriceLine from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages which it is able to prove.

(e) The provisions of this Section 6 shall survive the expiration or termination of this Agreement, and any of the arrangements contained herein, and shall be binding upon the Employee's corporate or personal successors and assigns.

7. Successors; Binding Agreement. This Agreement is a personal contract and the rights and interests of the Employee hereunder may not be sold, transferred, assigned, pledged, encumbered or hypothecated by him, except as otherwise expressly permitted by the provisions of this Agreement. This

Agreement shall inure to the benefit of the parties hereto and their respective representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. Entire Agreement. This Agreement, the Option Agreement and the Confidentiality Agreement contain all of the understandings between the parties hereto pertaining to the matters referred to herein, and supersedes any other undertakings and agreements, whether oral or in writing, previously entered into by them with respect thereto. The Employee represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement not set forth herein made by PriceLine with regard to the subject matter or effect of this Agreement or otherwise.

9. Amendment, Modification and Waiver. No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver is agreed to in writing, signed by the Employee and a duly authorized officer of PriceLine. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

10. Notices. Any notices, requests, demands, waivers or other communications required or permitted to be given hereunder shall be in writing and shall be deemed given when delivered personally, sent by courier or facsimile or registered or certified mail, postage prepaid, return receipt requested, by reputable overnight courier (receipt of which is confirmed) addressed to the party concerned at the address indicated below or to such other address as such party may subsequently give notice hereunder in writing:

To the Employee at:

Mr. Richard Braddock  
10 Gracie Square  
New York, New York 10028  
Telecopier: (212) 879-4010

To PriceLine at:

priceline.com Incorporated  
Five High Ridge Park

Stamford, Connecticut 06905-1325  
Telecopier: (203) 614-3234  
Attention: Mr. Jay Walker

All such notices, requests, demands, waivers and communications shall be deemed to have been given on the date on which so hand-delivered, on the third business day following the date on which so mailed, on the next business day following the date on which delivered to such overnight courier and on the date of such facsimile transmission and confirmation, except for a notice of change of person or address, which shall be effective only upon receipt thereof.

11. Severability. If for any reason any provision of this Agreement shall be held invalid, such invalidity shall not affect any other provision of this Agreement not so held invalid, and all other such provisions shall to the full extent consistent with law continue in full force and effect. If any such provision shall be held invalid in part, such invalidity shall in no way affect the rest of such provision which, together with all other provisions of this Agreement, shall likewise to the full extent consistent with law continue in full force and effect.

12. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations.

13. Governing Law; Jurisdiction; Arbitration.

(a) This Agreement will be governed by and construed in accordance with the laws of the State of Connecticut, without regard to its conflicts of laws principles.

(b) The parties hereto hereby irrevocably:

(i) agree that any suit, action or other legal proceeding arising out of this Agreement, or any of the transactions contemplated hereby, may be brought in the courts of record of the State of Connecticut or the courts of the United States located in the State of Connecticut;

(ii) consent to the jurisdiction of each such court in any such suit, action or proceeding;

(iii) waive any objection to the laying of venue of any such suit, action or proceeding in any of such courts; and

(iv) agree that Connecticut is the most convenient forum for litigation of any such suit, action or proceeding.

(c) If any dispute arising under this Agreement is not settled promptly in the ordinary course of business, the parties shall seek to resolve any such dispute between them, first, by negotiating promptly with each other in good faith. If the parties are unable to resolve the dispute between them within twenty (20) business days (or such period as the parties shall otherwise agree) through these negotiations, then any such disputes shall be settled by binding arbitration in accordance with this Agreement and the following procedures:

(i) Any arbitration shall be conducted in accordance with the Commercial Rules of the American Arbitration Association (the "AAA") then in effect.

(ii) Either party shall serve upon the other parties a written demand that the dispute be arbitrated, specifying in reasonable detail the nature of the dispute to be submitted to arbitration.

(iii) Within thirty (30) days after service of a demand for arbitration, the parties shall attempt to agree upon a single arbitrator.

(iv) In the event the parties cannot agree upon a single arbitrator, any party may request the AAA to appoint an arbitrator in accordance with its rules; except that if the parties fail to agree upon an arbitrator from the persons named by the AAA or if for any reason the appointment cannot be made from the lists submitted by the AAA, then the Employee and PriceLine shall each appoint an arbitrator within seven (7) days thereafter and the third arbitrator shall be appointed by the AAA.

(v) The arbitration proceeding shall be held in Stamford, Connecticut.

(vi) The arbitrators shall have no power or authority to add to or detract from the agreements of the parties.

(vii) The expenses of arbitration shall be borne equally by the Employee and PriceLine unless the arbitrators determine that one of the parties has not proceeded in good faith with respect to the matters submitted for arbitration, in which case, such party shall bear fully the expenses of arbitration.

(viii) Judgment may be entered on any arbitration award in any court of competent jurisdiction.

14. Headings. All descriptive headings of sections and paragraphs in this Agreement are intended solely for convenience, and no provision of this Agreement is to be construed by reference to the heading of any section or paragraph.

15. Specific Performance. Each party hereto acknowledges that money damages would be both incalculable and an insufficient remedy for any breach of this Agreement by such party and that any such breach would cause the other parties irreparable harm. Accordingly, each party hereto also agrees that, in the event of any breach or threatened breach of the provisions of this Agreement by such party, the other parties shall be entitled to equitable relief without the requirement of posting a bond or other security, including in the form of injunctions and orders for specific performance, in addition to all other remedies available to such other parties at law or in equity.

16. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement  
as of the date first above written.

EMPLOYEE

/s/ Richard Braddock  
-----  
Richard Braddock

priceline.com Incorporated

By: /s/ Paul E. Francis  
-----  
Name: Paul E. Francis  
Title: Chief Financial Officer



CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR  
CERTAIN PORTIONS OF THIS DOCUMENT. CONFIDENTIAL  
PORTIONS HAVE BEEN FILED SEPARATELY WITH  
THE SECURITIES AND EXCHANGE COMMISSION.

FIRST AMENDMENT AND WAIVER TO PARTICIPATION  
WARRANT AGREEMENT

FIRST AMENDMENT AND WAIVER TO PARTICIPATION WARRANT AGREEMENT, dated as of December 31, 1998 (this "Amendment"), between DELTA AIR LINES, INC., a Delaware corporation (the "Warrant Holder"), and PRICELINE.COM INCORPORATED, a Delaware corporation (the "Company").

WHEREAS, the Warrant Holder and the Company are parties to a Participation Warrant Agreement, dated August 31, 1998 (the "Warrant Agreement"); and

WHEREAS, the parties wish to amend the Warrant Agreement upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the covenants and undertakings contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DEFINITIONS. Capitalized terms used and not otherwise defined herein shall have the respective meanings assigned to them in the Warrant Agreement.

2. AMENDMENTS TO SECTION 1 OF THE WARRANT AGREEMENT. The phrase "Fifteen Million One Hundred Fourteen Thousand and Eighty-Three (15,114,083)" is hereby deleted and replaced with the following: "Fourteen Million, Eight Hundred Ninety-Five Thousand, Five Hundred Twenty-Two (14,895,522)". Warrant Holder hereby acknowledges that as a result of the reduction in the number of Shares pursuant to this Amendment, all references in the Agreement to the percentage of Fully Diluted Equity the Shares represent shall be proportionally decreased. The last two sentences of Section 1 of the Warrant Agreement are hereby deleted in their entirety.

[\*\*] = Confidential treatment requested for redacted portion.

3. AMENDMENT TO SECTION 3 OF THE WARRANT AGREEMENT. Section 3 of the Warrant Agreement is hereby amended and restated in its entirety to read as follows:

"3. TERM. Except as otherwise provided for herein, the term of the Warrants and the right to purchase Shares as granted herein shall be exercisable, at any time and from time to time beginning after December 31, 1998 and terminating at 5:00 p.m. New York City local time on December 31, 2005; provided, however, that if the Warrants vest on December 31, 2005, the Warrant Holder will have an additional six months thereafter to exercise its purchase rights in respect of the Warrants (such seven year period and additional six months, if applicable, being referred to herein as the "Termination Date"); and PROVIDED further, HOWEVER, that if the Company has not completed an initial public offering of shares of Common Stock of the Company pursuant to an effective Registration Statement under the Securities Act of 1933, as amended ("IPO"), prior to such Termination Date, then the term of the Warrants shall be extended on a year to year basis until the date that is six months after the effective date of the Company's IPO. In the event that the Termination Date falls on a date other than a business day in New York City, then the Termination Date shall be deemed to be the next succeeding business day thereafter.

4. AMENDMENTS TO SECTION 4 OF THE WARRANT AGREEMENT. Section 4(c) of the Warrant Agreement is hereby amended by deleting all references to the number "7,557,041" and replacing such references with the number "7,338,480". Section 4 of the Warrant Agreement is hereby amended to add a new Section 4(f) to read in its entirety as follows:

"(f) FULL VESTING. Notwithstanding anything to the contrary contained herein, the Warrants shall vest, to the extent not previously vested pursuant to Sections 4(a), 4(b) or 4(c) above, on December 31, 2005.

[\*\*] = Confidential treatment requested for redacted portion.

5. WARRANT HOLDER WAIVER. The Warrant Holder waives any rights, claims and actions it may have (i) under Sections 10(e) and (f) of the Warrant Agreement in respect of the increase in the number of shares of Common Stock available for issuance to employees and other personnel of the Company under the Priceline.com 1997 Omnibus Plan from 17.1 million shares to 19.1 million shares, such increase already having been waived by the Purchasers, and (ii) under Sections 10(e) and (f), and under Section 15(c), of the Warrant Agreement in connection with the issuance of warrants to acquire 250,000 shares of Common Stock at an exercise price of \$4.00 per share issued to [\*\*].

6. COMPANY WAIVER. Section 5 of the Warrant Agreement is deleted in its entirety.

7. AMENDMENT. All references in the Warrant Agreement (and in the other agreements, documents and instruments entered into in connection therewith) to the "Warrant Agreement" shall be deemed for all purposes to refer to the Warrant Agreement, as amended by this Amendment.

8. REMAINING PROVISIONS OF WARRANT AGREEMENT. Except as expressly provided herein, the provisions of the Warrant Agreement shall remain in full force and effect in accordance with their terms and shall be unaffected by this Amendment.

9. COUNTERPARTS. This Amendment may be executed in any number of counterparts and by the parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

10. HEADINGS. The headings in this Amendment are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

11. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law of any jurisdiction.

[SIGNATURE PAGE FOLLOWS]

[\*\*] = Confidential treatment requested for redacted portion.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by the authorized officers of each of the undersigned as of the date first above written.

PRICELINE. COM INCORPORATED

By: /s/ Paul E. Francis

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Name: Paul E. Francis

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Title: CFO

DELTA AIR LINES, INC.

By: /s/ Warren O. Jensen

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Name: Warren O. Jensen

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Title: Executive Vice President &  
Chief Financial Officer  
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[\*\*] = Confidential treatment requested for redacted portion.

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR CERTAIN PORTIONS OF THIS DOCUMENT. CONFIDENTIAL PORTIONS HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

THE SECURITIES REPRESENTED BY THIS WARRANT AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD OR OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED TO EFFECTUATE SUCH TRANSACTION.

PARTICIPATION WARRANT AGREEMENT  
To Purchase Shares of Common Stock  
Dated as of December 31, 1998

PRICELINE.COM INCORPORATED  
a Delaware Corporation

Issue Date: December 31, 1998

THIS CERTIFIES THAT, [\*\*] (the "Warrant Holder"), with a place of business at [\*\*], for value received, is entitled, upon the terms and subject to the conditions of this Participation Warrant Agreement (this "Warrant Agreement"), to subscribe for and purchase fully-paid and non-assessable shares of common stock, par value \$.01 per share (the "Common Stock"), of priceline.com Incorporated, a Delaware corporation (the "Company").

1. ISSUANCE OF WARRANTS. On the Issue Date, the Company will issue to the Warrant Holder warrants (the "Warrants") to acquire ONE MILLION (1,000,000) shares of the Common Stock (the "Shares").

2. EXERCISE PRICE. The Warrants have an exercise price of \$8.00 per share of Common Stock, as adjusted pursuant to the provisions of Section 8 of this Warrant Agreement (the "Exercise Price").

3. TERM. Except as otherwise provided for herein, the term of the Warrants and the right to purchase Shares as granted herein shall vest in the following manner: (i) Warrants for 500,000 Shares will vest on December 31, 1999 ("first traunch"), and (ii) Warrants for 500,000 Shares will vest on December 31, 2000 ("second traunch"). Vested shares may be exercised at any time and from time to time up to 5:00 p.m. New York City local time on the fourth anniversary of the Issue Date (the "Expiration Date"), provided the Company has, prior to any such exercise, completed an initial public offering of shares of Common Stock pursuant to an effective Registration Statement under the Securities Act of 1933, as amended (an "IPO"); provided, however, that if the Company has not completed an IPO within thirty (30) days prior to such Expiration Date, then the term of the Warrants

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and the exercise thereof shall be extended for a period of six (6) months from the completion date of the IPO.

#### 4. EXERCISE OF PURCHASE RIGHTS.

(a) EXERCISE. Subject to the terms of this Warrant Agreement, the purchase rights represented by this Warrant Agreement are exercisable by the Warrant Holder, in whole or in part, at any time, or from time to time during the period set forth in Section 3 above, by tendering to the Company at its principal office: a duly completed and executed notice of exercise in the form attached hereto as Exhibit A (the "Notice of Exercise"), the Warrants and the Exercise Price. Upon receipt of such items in accordance with the terms set forth below, the Company shall issue to the Warrant Holder a certificate for the number of shares of Common Stock purchased. The Warrant Holder, upon exercise of the Warrants, shall be deemed to have become the holder of the Shares represented thereby (and such Shares shall be deemed to have been issued) immediately prior to the close of business on the date or dates upon which the Warrants are exercised. In the event of any exercise of the rights represented by the Warrants, certificates for the Shares so purchased shall be delivered to the Warrant Holder or its designee as soon as practical and in any event within ten (10) business days after receipt of such notice and, unless the Warrants have been fully exercised or expired, new Warrants representing the remaining portion of the Warrants and the underlying Shares, if any, with respect to which this Warrant Agreement shall not then have been exercised shall also be issued to the Warrant Holder as soon as possible and in any event within such ten-day period.

(b) METHOD OF EXERCISE. The purchase rights hereby represented may be exercised, at the election of the Warrant Holder, by the tender of the Notice of Exercise and the surrender of the Warrants at the principal office of the Company and by the payment to the Company, by check, cancellation of indebtedness or other form of payment acceptable to the Company, of an amount equal to the then applicable Exercise Price per share multiplied by the number of Shares then being purchased.

(c) WARRANT HOLDER[\*\*]

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(d) NET ISSUE EXERCISE. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising the Warrants for cash, the Warrant Holder may elect to receive shares equal to the value (as determined below) of the Warrants (or portion thereof being canceled) by surrender of the Warrants at the principal office of the Company together with the duly executed Notice of Exercise in which event the Company shall issue to the Warrant Holder a number of shares of the Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

WHERE X= the number of shares of Common Stock to be issued to the Warrant Holder;

Y= the number of shares of the Common Stock purchasable under the warrants or, if only a portion of the Warrants is being exercised, the portion of the Warrants being canceled (at the date of such calculation);

A= the fair market value of one share of the Company's Common Stock (at the date of such calculation); and

B= Exercise Price (at the date of such calculation).

For purposes of the above calculation, fair market value of one share of the Common Stock shall be equal to the closing trading price of the Company's Common Stock on the day immediately prior to the date the Notice of Exercise is tendered to the Company.

5. RESERVATION OF SHARES. The Company will at all times have authorized and reserved a sufficient number of shares of Common Stock to provide for the exercise of the rights to purchase the Shares as provided in this Warrant Agreement. All of the Shares shall be duly authorized and, when issued upon such exercise, shall be validly issued, fully paid and non-assessable, and free and clear of all preemptive rights.

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6. NO FRACTIONAL SHARES. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the Warrant Holder's rights to purchase the Shares.

7. NO RIGHTS AS SHAREHOLDER. This Warrant Agreement does not entitle the Warrant Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise of the Warrant Holder's rights to purchase the Shares as provided for herein.

8. ADJUSTMENT RIGHTS. The Exercise Price and the number of shares of Common Stock purchasable hereunder are subject to adjustment from time to time, as follows:

(a) MERGER. If at any time there shall be a merger or consolidation of the Company with or into another corporation when the Company is not the surviving corporation, then, as part of such merger or consolidation, lawful provision shall be made so that the holder of the Warrants evidenced hereby shall thereafter be entitled to receive upon exercise of rights herein granted, during the period specified herein and upon payment of the aggregate Exercise Price, the number of shares of stock or other securities or property of the successor corporation resulting from such merger or consolidation, to which a holder of the stock deliverable upon exercise of the rights granted in this Warrant Agreement would have been entitled in such merger or consolidation if such rights had been exercised immediately before such merger or consolidation. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant Agreement with respect to the rights and interests of the holder after the merger or consolidation. The Company will not effect any such merger or consolidation unless, prior to the consummation thereof, the successor corporation shall assume, by written instrument reasonably satisfactory in form and substance to the Warrant Holder, the obligations of the Company under the Warrants.

(b) RECLASSIFICATION, ETC. If the Company at any time shall, by subdivision, combination or reclassification of securities or otherwise, change any of the securities as to which purchase rights under this Warrant Agreement exist into the same or a different number of securities of any other class or classes, this Warrant Agreement shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant Agreement immediately prior to such subdivision, combination, reclassification or other change.

(c) SPLIT, SUBDIVISION OR COMBINATION OF SHARES. If the Company at any time shall split or subdivide its Common Stock, the Exercise Price shall be proportionately decreased and the number of Shares issuable pursuant to this Warrant Agreement shall be proportionately increased. If the Company at any time shall combine or reverse split its Common Stock, the Exercise Price shall be proportionately increased and the number of Shares issuable pursuant to this Warrant Agreement shall be proportionately decreased.

(d) STOCK DIVIDENDS. If the Company at any time shall pay a dividend payable in Common Stock, then the Exercise Price shall be adjusted, from and after the date of determination of stockholders entitled to receive such dividend, to that price determined by multiplying the Exercise Price in effect immediately prior to such date of determination by a fraction (i) the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to such

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dividend and (ii) the denominator of which shall be the total number of shares of Common Stock outstanding immediately after such dividend. The Warrant Holder shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the number of shares of Common Stock (calculated to the nearest whole share) obtained by multiplying (i) the Exercise Price in effect immediately prior to such adjustment by (ii) the number of shares of Common Stock issuable upon the exercise hereof immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment.

(e) ISSUE OF ADDITIONAL STOCK. For so long as the term of the Warrants have not expired, upon each issuance or sale (or deemed issuance or sale) by the Company of any additional shares of Common Stock (or securities convertible or exercisable into Common Stock) which results or would have resulted in a reduction in the Conversion Price of the Convertible Preferred (as each such term is defined in the Company's Certificate of the Powers, Designations, Preferences and Rights of the Series A Convertible Preferred Stock (the "Certificate of Designation")) under Section 7(d)(ii) of the Company's Certificate of Designation, then the Exercise Price in effect immediately prior to each such issuance or sale shall, upon such issue or sale, be reduced by a percentage equal to the same percentage that the applicable Conversion Price has been reduced (or would have been reduced) as a result of such issuance or sale.

(f) OTHER CHANGES. If any change in the outstanding Common Stock of the Company or any other event occurs as to which the other provisions of this Section 8 are not strictly applicable or if strictly applicable, would not fairly protect the purchase rights of the Warrant Holder in accordance with such provisions, then the Board of Directors of the Company shall make an adjustment in the number of and class of shares available under the Warrants, the Exercise Price or the application of such provisions, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Warrant Holder upon exercise for the same aggregate Exercise Price the total number, class and kind of shares as the Warrant Holder would have owned had the Warrants been exercised prior to the event and had the Warrant Holder continued to hold such shares until after the event requiring adjustment.

(g) NOTICE OF ADJUSTMENTS; NOTICES. Whenever the Exercise Price or number of shares purchasable hereunder shall be adjusted pursuant to Section 4 hereof, the Company shall issue a certificate signed by its Chief Executive Officer or Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the holder of this Warrant. The Company shall give written notice to the Warrant Holder at least 10 days prior to the date on which the Company closes its books or takes a record for determining rights to receive any dividends or distributions. The Company shall also give written notice to the Warrant Holder at least 30 business days prior to the date on which a merger or consolidation of the Company with or into another corporation when the Company is not the surviving corporation shall take place.

(h) NO CHANGE OF WARRANT NECESSARY. Irrespective of any adjustment in the Exercise Price or in the number or kind of securities issuable upon exercise of the Warrant, unless the

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Warrant Holder otherwise requests, this Warrant Agreement may continue to express the same price and number and kind of shares of Common Stock as are stated in this Warrant Agreement as initially executed.

9. TERMINATION AND DAMAGES.

(a) MATERIAL BREACH.

(i) In the event that the Warrant Holder is in breach of its material obligations under this Warrant Agreement, and such breach is not cured to the reasonable satisfaction of the Company within 30 days after delivering notice of such breach to the Warrant Holder, the Company may terminate this Warrant Agreement immediately and without further notice to the Warrant Holder. Concurrent with any such termination by the Company, this Warrant Agreement, and all unexercised Warrants issued hereunder, shall automatically terminate, be canceled and of no further force and effect. In addition, upon any such termination by the Company, the Warrant Holder shall pay the Company, as liquidated damages for Warrant Holder's material breach of this Warrant Agreement and not as a penalty, the sum of 1) \$1,000,000, if such termination is effected before December 31, 1999, or (2) \$500,000, if such termination is effected on or after December 31, 1999 and before December 31, 2000. Any such payment shall be made in immediately available funds within thirty days from the date of any termination of this Warrant Agreement by the Company permitted by this Section 9(a).

(ii) In the event that the Company is in breach of its material obligations under Section 4(c) of this Warrant Agreement, and such breach is not cured to the reasonable satisfaction of the Warrant Holder within thirty (30) days after delivering notice of such breach to the Company, the Warrant Holder may thereupon terminate the parties rights and obligations under Section 4(c) hereof; provided, that if the Company repeats a material breach after notice and the Company's cure thereof, the cure period for such repeated breach shall be five (5) days and provided further that upon the occurrence of any second repeated breach, the Warrant Holder may immediately exercise its termination rights hereunder. Upon any such termination, Warrant Holder shall retain all of its rights under this Warrant Agreement with respect to its then vested Warrants but all the then unvested warrants shall immediately terminate and expire.

(b) TERMINATION WITHOUT BREACH BY FEBRUARY 4, 1999. Either party may terminate this Warrant Agreement, without cause, at anytime by written notice to the other party received on or prior to February 4, 1999. In the event this Warrant Agreement is terminated as contemplated by this Section 9(b), this Warrant Agreement, and all Warrants issued hereunder, shall automatically terminate, be canceled and of no further force and effect, and neither the Warrant Holder nor the Company shall have any further obligation under any term or provision of this Warrant Agreement.

(c) TERMINATION WITHOUT BREACH AFTER FEBRUARY 4, 1999. Except as otherwise provided in this Section 9(c), either party may terminate the parties' rights and obligations under Section 4(c) hereof, without cause, at any time by written notice to the other party; provided that (i) if Warrant Holder effects such termination on or before December 31, 1999, all of the Warrants granted

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to Warrant Holder hereunder shall immediately terminate and expire and Warrant Holder shall pay to the Company the liquidated damages prescribed in Section 9(a)(i)(1) hereof, and (ii) if Warrant Holder effects such termination after December 31, 1999, but before December 31, 2000, the second tranch granted to Warrant Holder shall immediately expire, and Warrant Holder shall pay to the Company the liquidated damages prescribed in Section 9(a)(i)(2) hereof. Notwithstanding any provision herein to contrary, Warrant Holder may not exercise a termination under this Section 9(c) on or after December 31, 2000.

10. REDEMPTION. Except as contemplated by Section 9 above, the Warrants represented by this Warrant Agreement are not redeemable by the Company.

11. COMPLIANCE WITH SECURITIES ACT; TRANSFERABILITY OF WARRANT OR SHARES OF COMMON STOCK.

(a) COMPLIANCE WITH SECURITIES ACT. The Warrant Holder, by acceptance hereof, agrees that the Warrants, and the shares of Common Stock to be issued upon exercise of the Warrants, are being acquired for investment and that such Warrant Holder will not offer, sell or otherwise dispose of the Warrants, or any shares of Common Stock to be issued upon exercise of the Warrants except under circumstances which will not result in a violation of the Securities Act of 1933, as amended (the "Securities Act"), or any applicable state securities laws. The Warrants and all shares of Common Stock issued upon exercise of the Warrants (unless registered under) the Securities Act and any applicable state securities laws) shall be stamped or imprinted with a legend in substantially the following form:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. THEY MAY NOT BE SOLD OR OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS SUCH REGISTRATION IS NOT REQUIRED TO EFFECTUATE SUCH TRANSACTION, AND IF REQUESTED BY THE COMPANY, THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL TO THAT EFFECT."

(b) TRANSFER. Subject to the provisions of the Securities Act and any applicable state securities laws, the Warrants and any related rights hereunder may be sold, transferred, pledged or otherwise disposed of (collectively, "Sold"), in whole or in part, to any person. Any transfer or sale or attempted transfer or sale of this Warrant in violation of any provision of this Warrant shall be void, and the Company shall not record such transfer on its books or treat any purported transferee of the Warrant as the owner of the Warrant for any purpose.

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(c) EXCHANGE, TRANSFER, ASSIGNMENT OR LOSS OF WARRANTS. The Warrants cannot be exchanged, transferred or assigned otherwise than in accordance with the provisions of this Agreement. If the provisions of this Agreement are complied with, upon surrender of the Warrants to the Company with the Assignment Form annexed hereto as Exhibit B duly executed, and funds sufficient to pay any transfer tax, the Company shall, without charge, execute and deliver a new Warrant Agreement in the name of the heir, devisee or assignee named in such instrument of assignment and this Warrant Agreement shall promptly be canceled.

12. RESTRICTED SECURITIES. The Warrant Holder understands that the Warrants and the Shares issuable upon vesting and exercise of the Warrants, will not be registered at the time of their issuance under the Securities Act for the reason that the sale provided for in this Agreement is exempt pursuant to Section 4(2) of the Securities Act based on the representations of the warrant Holder set forth herein. The Warrant Holder represents that it is experienced in evaluating companies such as the Company, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment and has the ability to suffer the total loss of the investment. The Warrant Holder further represents that it has had the opportunity to ask questions of and receive answers from the Company concerning the terms and conditions of the Warrants, the business of the Company, and to obtain additional information to such Warrant Holder's satisfaction. The Warrant Holder is an "Accredited Investor" within the meaning of Rule 501 of Regulation D under the Securities Act, as presently in effect.

13. REGISTRATION RIGHTS. The Company will use its best efforts to cause the Warrant Holder to become a party to that certain Amended Registration Rights Agreement, dated as of December 8, 1998, by and among the Company and the stockholders of the Company named therein, on such terms and conditions as may be reasonably acceptable to the Company, the Warrant Holder and the other stockholders a party to such Amended Registration Rights Agreement. In the event of the Company fails to have the Warrant Holder become a party to the Amended Registration Rights Agreement on terms and conditions reasonably acceptable to Warrant Holder by February 4, 1999, the Warrant Holder shall have the right to terminate this Warrant Agreement by delivering a written notice to the Company as prescribed in Section 9(b) hereof.

14. MISCELLANEOUS.

(a) NO CONSEQUENTIAL DAMAGES. No party hereto shall be entitled to consequential damages as a result of any breach of a covenant, representation or warranty contained herein.

(b) NOTICES. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier, courier service or personal delivery:

(i) if to the Company, to:

priceline.com Incorporated  
Five High Ridge Park  
Stamford, CT 06905

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Telecopy: (203) 595-8345  
Attention: Melissa M. Taub, Esq.

and to:

Skadden, Arps, Slate, Meagher, & Flom, L.L.P.  
One Rodney Square  
Wilmington, DE 19801  
Telecopy: (302) 651-3001  
Attention: Patricia Moran Chuff, Esq.

(ii) if to the Warrant Holder, to:

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Phone: [\*\*]  
Telecopy: [\*\*]  
Attention: [\*\*]

and Copy to:

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Telecopy: [\*\*]  
Attention: [\*\*]

All such notices and communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five (5) business days after being deposited in the mail, postage prepaid, if mailed; and when receipt is mechanically acknowledged, if telecopied.

(b) SUCCESSORS AND ASSIGNS; THIRD PARTY BENEFICIARIES. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. No person, other than the parties hereto and their successors and permitted assigns, is intended to be a beneficiary of this Agreement.

(c) AMENDMENT AND WAIVER.

(i) No failure or delay on the part of the Company, or the Warrant Holder in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise

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thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Company and the Warrant Holder at law, in equity or otherwise.

(ii) Any amendment, supplement or modification of or to any provision of this Warrant Agreement, any waiver of any provision of this Warrant Agreement, and any consent to any departure by the Company or the Warrant Holder from the terms of any provision of this Agreement, shall be effective only if it is made or given in writing and signed by the Company and the Warrant Holder.

(d) COUNTERPARTS. This Warrant Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(e) HEADINGS. The headings in this Warrant Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(f) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW OF ANY JURISDICTION.

(g) SEVERABILITY. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

(h) ENTIRE AGREEMENT. This Warrant Agreement, together with the exhibits and schedules hereto and the current Airline Participation Agreement among the Company, the Warrant Holder and PriceLine Travel, Inc., (as amended, substituted, supplemented or superseded by oral agreement of the parties anytime after the date hereof), is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. This Warrant Agreement, together with the exhibits and schedules hereto and the current Airline Participation Agreement among the Company, the Warrant Holder and PriceLine Travel, Inc., (as amended, substituted, supplemented or superseded by oral agreement of the parties anytime after the date hereof), supersedes all prior agreements and understandings between the parties with respect to such subject matter.

(i) PUBLICITY. Except as may be required by law, none of the parties hereto shall issue a publicity release or public announcement or otherwise make any disclosure concerning this Warrant Agreement or the transactions contemplated hereby, without prior approval by the other party (which approval shall not be unreasonably withheld); provided, however, that nothing in this

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Warrant Agreement shall restrict the Warrant Holder from disclosing information (a) that is already publicly available and (b) to its attorneys, accountants, consultants and other advisors to the extent necessary to obtain their services in connection with the Warrant Holder's investment or participation in the Company. If any announcement is required by law to be made by any party hereto concerning this Warrant Agreement or the transactions contemplated hereby, prior to making such announcement such party will deliver a draft of such announcement to the other parties and shall give the other parties an opportunity to comment thereon.

(j) CHARGES; TAXES AND EXPENSES. Issuance of certificates for shares upon the exercise of the Warrants shall be made without charge to the Warrant Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

(k) SATURDAYS, SUNDAYS, HOLIDAYS, ETC. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or a legal holiday.

(l) LOST WARRANTS. The Company covenants to the Warrant Holder that, upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant Agreement and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation, upon surrender and cancellation of this Warrant Agreement, the Company will make and deliver a new Warrant Agreement of like tenor, in lieu of the lost, stolen, destroyed or mutilated document.

(m) FURTHER ASSURANCES. Each of the parties shall execute such documents and perform such further acts (including, without limitation, obtaining any consents, exemptions, authorizations or other actions by, or giving any notices to, or making any filings with, any governmental authority or any other person, and otherwise fulfilling, or causing the fulfillment of, the various obligations made herein, as may be reasonably required or desirable to carry out or to perform the provisions of this Warrant Agreement and to consummate and make effective as promptly as possible the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, this Warrant Agreement has been duly executed and delivered by the authorized officers of each of the undersigned.

PRICELINE.COM INCORPORATED

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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By: [\*\*]

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Name: [\*\*]  
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Title: [\*\*]  
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EXHIBIT A

NOTICE OF EXERCISE

To: Priceline.com Incorporated

1. The undersigned hereby elects to purchase \_\_\_\_\_ shares of the Common Stock of Priceline.com Incorporated pursuant to the terms of the Warrant Participation Agreement, dated as of December 31, 1998, by and between Priceline.com Incorporated and the undersigned, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned.

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By: \_\_\_\_\_

\_\_\_\_\_  
(Print Name of Signatory)

\_\_\_\_\_  
(Title of Signatory)

Date: \_\_\_\_\_

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EXHIBIT B  
ASSIGNMENT FORM

TO: Priceline.com Incorporated

The undersigned hereby assigns and transfers unto \_\_\_\_\_  
of \_\_\_\_\_

(Please typewrite or print in block letters)

the right to purchase \_\_\_\_\_ shares of the common stock of Priceline.com Incorporated subject to the Warrant Participation Agreement, dated as of December 31, 1998, by and between Priceline.com Incorporated and the undersigned (the "Warrant Agreement").

This assignment complies with the provisions of Section 11(c) of the Warrant Agreement and is accompanied by funds sufficient to pay all applicable transfer taxes.

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By: \_\_\_\_\_

\_\_\_\_\_  
(Print Name of Signatory)

\_\_\_\_\_  
(Title of Signatory)

Date: \_\_\_\_\_

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SCHEDULE 4 C

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CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR CERTAIN PORTIONS OF THIS DOCUMENT. CONFIDENTIAL PORTIONS HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

AMENDMENT NO 1. TO WARRANT PARTICIPATION AGREEMENT

This Amendment No 1. to Warrant Participation Agreement (the "Amendment") is dated as of February 4, 1999, by and between priceline.com Incorporated (the "Company") and [\*\*] ("Warrant Holder").

WHEREAS, the Company and the Warrant Holder are parties to a Warrant Participation Agreement dated December 31, 1999, under which the Company granted warrants to Warrant Holder to purchase 1,000,000 shares of the Company's common stock, par value \$.01 per share (the "Warrant Agreement"); and

WHEREAS, the Company and the Warrant Holder desire to amend the Warrant Agreement in accordance with the terms hereof.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follow:

1. AMENDMENTS. Sections 9(b), 9(c) and 13 of the Warrant Agreement are hereby amended by deleting each reference therein to "February 4, 1999" and substituting therefor a reference to "March 3, 1999."

2. AFFECT OF AMENDMENT. This Amendment hereby modifies and amends the Warrant Agreement solely to the extent set forth in Section 1 hereof, and except as otherwise amended hereby, all other provision of the Warrant Agreement shall remain in full force and effect in accordance with the terms thereof.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and year first above written.

PRICELINE.COM INCORPORATED

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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CO-MARKETING AGREEMENT

This Co-Marketing Agreement (the "Agreement") is made and entered into this 18th day of February, 1999 ("Effective Date"), by and between priceline.com Incorporated, a Delaware corporation located at Five High Ridge Park, Stamford, CT 06905 ("Co-Marketer") and E\*TRADE Group, Inc., a Delaware corporation located at Four Embarcadero Place, 2400 Geng Road, Palo Alto, CA 94303 ("E\*TRADE") (each a "Party," collectively, the "Parties"). This Agreement includes any Exhibits attached hereto and referenced herein.

WHEREAS, E\*TRADE is in the business of providing electronic securities brokerage services and related products and services;

WHEREAS, Co-Marketer is in the business of selling consumer goods and services primarily over the Internet;

WHEREAS, the Parties desire to enter into a joint marketing program pursuant to the terms and conditions of this Agreement;

NOW THEREFORE, IN CONSIDERATION OF the mutual promises and covenants set forth in this Agreement, the Parties agree as follows:

1. Definitions.

a. "Co-Marketer Services" means Co-Marketer's on-line and related products and services available through the Co-Marketer Site.

b. "Co-Marketer Site" means Co-Marketer's web site located at < <http://www.priceline.com> > (or any replacement or successor address) and all third party co-branded or mirrored addresses or sites thereof.

c. "E\*TRADE Adaptive Marketing Program" has the meaning ascribed to it in Exhibit A hereto.

d. "E\*TRADE Dedicated Server" means a server to be leased by E\*TRADE from Co-Marketer and located at a service center designated by Co-Marketer, on which E\*TRADE shall maintain a URL for brokerage account application forms and instructions for the E\*TRADE Adaptive Marketing Program. Content on the E\*TRADE Dedicated Server and all transactions effected thereon shall be the exclusive property of E\*TRADE and E\*TRADE shall be solely responsible for the preparation, maintenance and modification of the content included thereon. The E\*TRADE Dedicated Server shall only contain content for, and shall only be operated for the purposes of, the E\*TRADE Adaptive Marketing Program. The E\*TRADE Dedicated Server will be maintained by Co-Marketer and its designated service agent.

e. "E\*TRADE IPO Program" has the meaning ascribed to it in Exhibit A hereto.

f. "E\*TRADE Services" means E\*TRADE's electronic securities brokerage services and related products available at the E\*TRADE Site.

g. "E\*TRADE Site" means E\*TRADE's web site located at < <http://www.etrade.com> > (or any replacement or successor address).

h. "Link" means a visible graphic or textual indication located within a web site page which, when selected by a user's browser, directs the user's internet browser connection onward to a specified page on the same or any other web site via a uniform resource locator (URL) (whether perceptible or not) and which establishes a direct connection between the browser and the new page.

i. "Submitted Application" shall mean a funded customer application to open a securities brokerage account (non-IRA) with E\*TRADE that (i) is completed in all material respects in accordance with the instructions provided by E\*TRADE in the application kit or on line application page, (ii) is received by E\*TRADE, and (iii) the applicant accessed the E\*TRADE application page through a direct Link from the Co-Marketer. For purposes of this Section li, "funded" shall mean E\*TRADE's receipt of the signed hardcopy of an applicant's brokerage account application, together with a check or other acceptable form of payment in the minimum amount of \$500.00 to be used as such customer's initial deposit into the E\*TRADE account corresponding to such customer's Submitted Application. For purposes of this Agreement, a Submitted Application shall not lose its status as such if the underlying account is subsequently terminated or if the funds in such account are subsequently reduced below the minimum initial deposit of \$500.00.

j. "Successful Offer" means an offer made by a customer on the Co-Marketer Site to purchase airline tickets in which (i) the customer elects to participate in the E\*TRADE Adaptive Marketing Program by clicking on the Link to E\*TRADE's brokerage account application page at the URL maintained on the E\*TRADE Dedicated Server for the E\*TRADE Adaptive Marketing Program, and completing the required account application disclosures, and (ii) Co-Marketer accepts such customer's offer by selling such customer an airline ticket. E\*TRADE acknowledges and agrees that a Successful Offer may be effected even if the customer does not deliver a Submitted Application.

k. "Successful Offer Fee" means, for each Successful Offer, two (2) times the actual amount that Co-Marketer pays pursuant to the E\*TRADE Adaptive Marketing Program to increase and make a customer's offer a Successful Offer. At no time shall any single Successful Offer Fee exceed \$150. By way of example, if Co-Marketer pays \$50 to increase and make a customer's offer a Successful Offer, the Successful Offer Fee will be \$100 (2 x \$50).

2. Co-Marketing Obligations.

a. Scope. The Parties shall undertake and perform the obligations for the marketing and promotion of the Co-Marketer Services along with the E\*TRADE Services on the Co-Marketer Site and/or E\*TRADE Site, to the extent specified in Exhibits A and B attached hereto. All such promotional activity shall be subject to the prior approval of both Parties, in advance and before first use, such approval not to be unreasonably withheld. E\*TRADE reserves the right to request that Co-Marketer deliver to E\*TRADE accurate records regarding promotional materials and other communications to third-parties regarding E\*TRADE (including materials sent on behalf of E\*TRADE), including copies of such materials, the names and addresses (electronic and/or residential) to which they were sent and the dates of delivery.

b. Restrictions. Other than by engaging in the activities described in Exhibit A, Co-Marketer, its affiliates and their employees will not (i) describe E\*TRADE's brokerage services (other than disseminating or posting promotional or advertising materials approved in each case, in advance and before first use, by E\*TRADE); (ii) recommend or endorse specific securities; (iii) become involved in the financial services offered by E\*TRADE, including, without limitation, by: (A) opening, approving, maintaining, administering, or closing customer brokerage accounts with E\*TRADE; (B) soliciting, processing, or facilitating securities transactions relating to customer brokerage accounts with E\*TRADE; (C) extending credit to any customer for the purpose of purchasing securities through, or carrying securities with, E\*TRADE; (D) answering E\*TRADE customer inquiries (other than directing customers to a toll-free number of E\*TRADE to address such inquiries) or engaging in negotiations involving brokerage accounts or securities transactions; (E) accepting customer securities orders, selecting among broker-dealers or routing orders to markets for E\*TRADE execution; (F) handling investment funds or securities of E\*TRADE customers, or effecting clearance or settlement of customer securities trades; or (G) resolving or attempting to resolve any problems, discrepancies, or disputes involving E\*TRADE customer accounts or related transactions (other than directing customers to a toll-free number of E\*TRADE to address such inquiries). Co-Marketer acknowledges that engaging in any of the above activities may subject Co-Marketer to broker-dealer registration requirements under the Securities Exchange Act of 1934 and applicable state law. Each Party acknowledges that nothing in this Agreement shall require either Party to take any action that is in violation of any Federal, state or other securities laws. E\*TRADE acknowledges that Co-Marketer will not be required by E\*TRADE to take any action that would cause it to become a broker/dealer in connection with the Co-Marketer's activities contemplated by this Agreement. Notwithstanding anything to the contrary herein, employees of Co-Marketer and its affiliates, may, in their individual capacity and in accordance with E\*TRADE's normal operating standards and customer requirements, become member, customers or account-holders of E\*TRADE.

c. Exclusivity. During the Term (as hereinafter defined), E\*TRADE shall be the exclusive provider of brokerage services and investment-related products (specifically excluding



banking and insurance products and services), electronic or otherwise, promoted through the Co-Marketer's Services and the Co-Marketer Site.

3. Licensed Marks.

a. License to E\*TRADE Marks. Subject to all the terms and conditions of this Agreement, E\*TRADE hereby grants Co-Marketer a nonexclusive, non-transferable, non-sublicensable license to use the E\*TRADE Marks solely on the Co-Marketer Site and solely in connection with the marketing and promotion of the Co-Marketer Services and the E\*TRADE Services. "E\*TRADE Marks" shall mean solely the E\*TRADE trade name, logos and Marks specified in Exhibit D hereto; provided, however, that E\*TRADE, in its sole discretion from time to time, may change the appearance and/or style of the E\*TRADE Marks or add or subtract from the list in Exhibit D, provided that, unless required earlier by a court order or to avoid potential infringement liability, Co-Marketer shall have fourteen (14) days' notice to implement any such changes. Co-Marketer hereby acknowledges and agrees that (i) E\*TRADE has represented to it that the E\*TRADE Marks are owned solely and exclusively by E\*TRADE, (ii) except as set forth herein, Co-Marketer has no rights, title or interest in or to the E\*TRADE Marks and (iii) all use of the E\*TRADE Marks by Co-Marketer shall inure to the benefit of E\*TRADE. Co-Marketer agrees not to apply for registration of the E\*TRADE Marks (or any mark confusingly similar thereto) anywhere in the world.

b. Use and Display of E\*Trade Marks. Co-Marketer acknowledges and agrees that the presentation and image of the E\*TRADE Marks should be uniform and consistent with respect to all services, activities and products associated with the E\*TRADE Marks. Accordingly, Co-Marketer agrees to use the E\*TRADE Marks solely in the manner which E\*TRADE shall specify from time to time in E\*TRADE's sole discretion. All usage by Co-Marketer of the E\*TRADE Marks shall include the registered trademark symbol and shall be in the following form, as appropriate: [E\*TRADE Mark] (R). All literature and materials printed, distributed or electronically transmitted by Co-Marketer and containing the E\*TRADE Marks shall include the following notice:

[E\*TRADE Mark] is a registered trademark of  
E\*TRADE Securities, Inc.

c. License to Co-Marketer Marks. Subject to all the terms and conditions of this Agreement, Co-Marketer hereby grants E\*TRADE a nonexclusive, non-transferable, non-sublicensable license to use the Co-Marketer Marks solely on the E\*TRADE Site and solely in connection with the marketing and distribution of the E\*TRADE Services to its customers. "Co-Marketer Marks" shall mean solely the Co-Marketer trade names, marks and logos specified in Exhibit E hereto; provided, however, that Co-Marketer, in its sole discretion from time to time, may change the appearance and/or style of the Co-Marketer Marks or add or subtract from the list in Exhibit E, provided that, unless required earlier by a court order or to avoid potential infringement liability, E\*TRADE shall have fourteen (14) days' notice to implement any such

changes. E\*TRADE hereby acknowledges and agrees that, (i) Co-Marketer has represented to E\*TRADE that the Co-Marketer Marks are owned solely and exclusively by Co-Marketer, (ii) except as set forth herein, E\*TRADE has no rights, title or interest in or to the Co-Marketer Marks and (iii) all use of the Co-Marketer Marks by E\*TRADE shall inure to the benefit of Co-Marketer. E\*TRADE agrees not to apply for registration of the Co-Marketer Marks (or any mark confusingly similar thereto) anywhere in the world.

d. Use and Display of Co-Marketer Marks. E\*TRADE acknowledges and agrees that the presentation and image of the Co-Marketer Marks should be uniform and consistent with respect to all services, activities and products associated with the Co-Marketer Marks. Accordingly, E\*TRADE agrees to use the Co-Marketer Marks solely in the manner which Co-Marketer shall specify from time to time in Co-Marketer's sole discretion. All usage by E\*TRADE of the Co-Marketer Marks shall include the appropriate trademark symbol and shall be in the following form, as appropriate: [Co-Marketer Mark](sm). All literature and materials printed, distributed or electronically transmitted by E\*TRADE and containing the Co-Marketer Marks shall include the following notice:

[Co-Marketer Mark] is a Service Mark of  
priceline.com Incorporated

4. Payment. Subject to the terms and conditions of this Agreement, all payments made under this agreement shall be made in accordance with terms specified in Exhibit C attached hereto.
5. Ownership. Each Party or their respective licensors and third party information and content providers retain all rights, title and interest in and to all of the information, content, data, designs, materials and copyrights, patent rights trademark rights and other proprietary rights thereto provided by it pursuant to this Agreement. Except as expressly provided herein, no other right or license with respect to any copyrights, patent rights, trademark rights or other proprietary rights is granted under this Agreement. All rights not expressly granted hereunder by a Party are expressly reserved to such Party and its licensors and information and content providers.
6. Records; Audits; Payments.

Each Party shall keep maintain and preserve for at least three (3) years following termination or expiration of the term of this Agreement or any renewal(s) thereof, accurate records relating to such Party's payment obligations hereunder and the Successful Offer Logs and Submitted Applications Logs, as defined in Exhibit C. Such records shall be maintained as confidential, but shall be available for inspection and audit as provided herein. Each Party shall have the right to have an independent public accountant, reasonably acceptable to the other Party, examine such other Party's relevant books, records and accounts for the purpose of verifying the accuracy of payments made to the other Party as required under this Agreement. Each Party acknowledges

and agrees that such accountant shall not have access to the books, records, and accounts relating to other products or services except as such books, records and accounts also directly relate to the payments due hereunder. Each audit will be conducted at the audited Party's place of business, or other place agreed to by Co-Marketer and E\*TRADE, during the audited Party's normal business hours and with at least five (5) business days prior written notice to the audited Party. The auditing Party shall pay the fees and expenses of the auditor for the examination; provided that should any examination disclose a greater than five percent (5%) shortfall in the payments due the auditing Party for the period being audited, the audited Party shall pay the reasonable fees and expenses of the auditor for that examination.

7. Term. This Agreement shall commence on the Effective Date and shall remain in full force and effect for the initial term of one hundred-eighty (180) days (the "Term"), unless terminated earlier pursuant to Section 8 and/or Exhibit C.

8. Termination.

a. The Parties agree that, except for certain termination rights of E\*TRADE provided in Exhibit C hereto, neither Party may terminate this Agreement during the Term other than for cause pursuant to section 8b. hereof.

b. This Agreement may be terminated by a Party for cause immediately by written notice to the other Party upon the occurrence of any of the following events:

i) If the other ceases to do business, or otherwise terminates its business operations, except as a result of an assignment permitted under Section 17.a below; or

ii) If the other shall fail to promptly secure or renew any license, registration, permit, authorization or approval for the conduct of its business in the manner contemplated by this Agreement or if any such license, registration, permit, authorization or approval is revoked or suspended; provided that a termination hereunder may only be effected during the period of such revocation or suspension; or

iii) If the other materially breaches any material provision of this Agreement and fails to cure substantially such breach within ten (10) days of written notice describing the breach; or

iv) Effective immediately and without notice if the other becomes insolvent or seeks protection under any bankruptcy, receivership, trust deed, creditors arrangement, composition or comparable proceeding, or if any such proceeding is instituted against the other (and not dismissed within sixty (60) days); or

v) If such party, after consultation with legal counsel, reasonably believes that the activities of the other Party or the content of such other Party's Web Site or the

statements of opinions express on or through such web site, whether in connection with this Agreement or otherwise, has or is substantially likely to expose such Party to criminal or civil liability.

c. Survival. The terms and conditions of Sections 5, 6 and 8 through and including Section 17, any accrued payment obligations and, except as otherwise expressly provided herein, any right of action for breach of this Agreement prior to termination shall survive any termination of this Agreement. Furthermore, upon termination or expiration of this Agreement the licenses granted in Sections 2 and 3 of the Agreement shall cease.

9. [Reserved]

10. Warranty Disclaimer. EXCEPT AS EXPRESSLY PROVIDED HEREIN, NEITHER PARTY MAKES ANY WARRANTIES TO ANY PERSON OR ENTITY WITH RESPECT TO ANY INFORMATION, CONTENT OR OTHER MATERIALS PROVIDED OR MADE AVAILABLE BY IT HEREUNDER AND DISCLAIMS ALL IMPLIED WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT.

11. Indemnification.

a. Each Party (the "Indemnitor") shall defend or settle at its expense any claim against the other Party (the "Indemnitee"), its affiliates, directors, officers, employees and agents, to the fullest extent permitted by law, arising out of or in connection with (a) an assertion that the information, content or other materials or services provided or made available by the Indemnitor or the use thereof as specifically authorized by the Indemnitor, infringe any copyright or trademark rights of any third party, or are a misappropriation of any third party's trade secret, or contain any libelous, defamatory, disparaging, pornographic or obscene materials; (b) any breach by Indemnitor of its obligations under this Agreement; and (c) any content of, or statements made, by Indemnitor on the Indemnitor's Site.

b. The Indemnitor shall indemnify and hold harmless the Indemnitee against and from losses, damages, costs, and reasonable attorneys' fees, if any, incurred in defending and/or resolving such suit; provided that (a) the Indemnitor is promptly notified in writing of such claim or suit, (b) the Indemnitor shall have the sole control of the defense and/or settlement thereof, (c) the Indemnitee furnishes to the Indemnitor, on request, information available to the Indemnitee for such defense, and (d) the Indemnitee cooperates in any defense and/or settlement thereof as long as the Indemnitor pays all of the Indemnitee's reasonable out of pocket expenses and attorneys' fees. The Indemnitee shall not admit any such claim without prior consent of the Indemnitor.

12. Limited Liability. EXCEPT AS OTHERWISE PROVIDED BELOW, AND NOTWITHSTANDING ANYTHING ELSE IN THIS AGREEMENT OR OTHERWISE, NEITHER PARTY SHALL BE LIABLE OR OBLIGATED UNDER ANY SECTION OF THIS AGREEMENT OR UNDER CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS OR COST OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES. THE LIMITATIONS IN THIS SECTION 12 SHALL NOT APPLY TO ANY BREACH OF SECTION 13.

13. Confidential Information.

a. Each Party ("Receiving Party") agrees that during the Term of, the and for a period of three (3) years thereafter, it will keep confidential and not disclose or use except in performance of its obligations under this Agreement, confidential or proprietary information related to the other Party's ("Disclosing Party") technology or business that the Receiving Party learns in connection with this Agreement and any other information received from the other, including without limitation, to the extent previously, currently or subsequently disclosed to the Receiving Party hereunder or otherwise: information relating to products or technology of the Disclosing Party or the properties, composition, structure, use or processing thereof, or systems therefor, or to the Disclosing Party's business (including, without limitation, computer programs, code, algorithms, schematics, data, know-how, processes, ideas, inventions (whether patentable or not), names and expertise of employees and consultants, all information relating to customers and customer transactions and other technical, business, financial, customer and product development plans, forecasts, strategies and information), all of the foregoing, "Confidential Information"). Except as (i) otherwise required by law, including, without limitation, as included or to be included in Co-Marketer's registration statement or Form S-1 and related public filings with the Securities and Exchange Commission or the National Association of Securities Dealers, Inc, or (ii) or as may be necessary to enforce such Parties' rights under this Agreement, neither Party shall disclose the terms of this Agreement to any third party without the prior written consent of the other Party. Each Party shall use reasonable precautions to protect the other's Confidential Information and employ at least those precautions that such Party employs to protect its own confidential or proprietary information. "Confidential Information" shall not include information the Receiving Party can document (a) is in or (through no improper action or inaction by the Receiving Party or any affiliate, agent or employee) enters the public domain (and is readily available without substantial effort), or (b) was rightfully in its possession or known by it prior to receipt from the Disclosing Party, or (c) was rightfully disclosed to it by another person without restriction, or (d) was independently developed by it by persons without access to such information and without use of any Confidential Information of the Disclosing Party. Each Party, with prior written notice to the Disclosing Party, may disclose such Confidential Information to the minimum extent possible that is required to be disclosed to a governmental entity or agency in connection with seeking any governmental or regulatory

approval, or pursuant to the lawful requirement or request of a governmental entity or agency, provided that reasonable measures are taken to guard against further disclosure, including without limitation, seeking appropriate confidential treatment or a protective order, or assisting the other Party to do so.

b. The Receiving Party acknowledges and agrees that due to the unique nature of the Disclosing Party's Confidential Information, there can be no adequate remedy at law for any breach of its obligations hereunder, that any such breach may allow the Receiving Party or third parties to unfairly compete with the Disclosing Party resulting in irreparable harm to the Disclosing Party, and therefore, that upon any such breach or any threat thereof, the Disclosing Party shall be entitled to appropriate equitable relief in addition to whatever remedies it might have at law and to be indemnified by the Receiving Party from any loss or harm, including, without limitation, lost profits and attorney's fees, in connection with any breach or enforcement of the Receiving Party's obligations hereunder or the unauthorized use or release of any such Confidential Information. The Receiving Party will notify the Disclosing Party in writing immediately upon the occurrence of any such unauthorized release or other breach. Any breach of this Section 7 will constitute a material breach of this Agreement.

14. Relationship of Parties. The Parties hereto expressly understand and agree that each Party is an independent contractor in the performance of each and every part of this Agreement, is solely responsible for all of its employees and agents and its labor costs and expenses arising in connection therewith. Neither Party nor its agents or employees are the representatives of the other Party for any purpose and neither Party has the power or authority as agent, employee or any other capacity to represent, act for, bind or otherwise create or assume any obligation on behalf of the other Party for any purpose whatsoever.

15. Notices. Notices under this Agreement shall be sufficient only if personally delivered, delivered by a major commercial rapid delivery courier service or mailed, postage or charges prepaid, by certified or registered mail, return receipt requested to a Party at its addresses set forth on the first page above or as amended by notice pursuant to this Section. If not received sooner, notice by mail shall be deemed received five (5) days after deposit in the U.S. mails.

16. Dispute Resolution. The Parties will act in good faith and use commercially reasonable efforts to promptly resolve any claim, dispute, controversy or disagreement (each a "Dispute") between the Parties or any of their prospective subsidiaries, affiliates, successors or assigns under or related to this Agreement or any document executed pursuant to this Agreement or any of the transactions contemplated hereby.

a. Except for Disputes relating to issues of proprietary rights, including but not limited to, intellectual property and confidentiality, and except that either Party may seek injunctive or other equitable relief from a court, any Dispute will be governed exclusively and

finally by arbitration. Such arbitration will be conducted by the American Arbitration Association ("AAA") at a location mutually acceptable to the Parties and will be initiated and conducted in accordance with the Commercial Arbitration Rules of the AAA, including the AAA Supplementary Procedures for Large Complex Commercial Disputes ("Complex Procedures"), as such rules are in effect on the date of delivery of a demand for arbitration ("Demand"), except to the extent that such rules are inconsistent with the provisions set forth herein. Notwithstanding the foregoing, the Parties may agree in good faith that the Complex Procedures will not apply in order to promote the efficient arbitration of Disputes where the nature of the Dispute, including without limitation, the amount in controversy, does not justify the application of such procedures.

b. If the amount in dispute is less than or equal to \$500,000, a single arbitrator will be selected from the AAA panel of commercial arbitrators of any of the AAA Large and Complex Resolution Programs. If the amount in dispute is greater than \$500,000, then the arbitration panel will consist of three arbitrators, provided that if the panel concludes that such amount claimed in dispute over \$500,000 was not made in good faith, then the claimant shall pay to the respondent the full cost of the respondent's non-neutral arbitrator fees. Each Party will name an arbitrator within ten (10) days after the delivery of the Demand. The third arbitrator, to be selected by the first two, should be a neutral participant with no prior working relationship with either Party. If the two arbitrators are unable to select a third arbitrator within ten (10) days, a third neutral arbitrator will be appointed by the AAA from the panel of commercial arbitrators of any of the AAA Large and Complex Resolution Programs.

c. The Federal Arbitration Act, 9 U.S.C. Secs. 1-16, and not state law, will govern the arbitrability of all Disputes. The arbitrator(s) shall have the discretion to order a pre-hearing exchange of information by the Parties, including, without limitation, production of requested documents, exchanging summaries of testimony of proposed witnesses and limited examination by deposition of Parties.

d. The arbitrators will have the authority to award compensatory damages only. Any award by the arbitrators will be accompanied by a written opinion setting forth the findings of fact and conclusions of law relied upon in reaching the decision. The award rendered by the arbitrators will be final, binding and non-appealable; and judgment upon such award may be entered by any court of competent jurisdiction.

#### 17. Miscellaneous.

a. Prohibition Against Assignment. Neither this Agreement nor any rights, licenses or obligations hereunder, may be assigned by either Party without the prior written approval of the non-assigning Party. Any attempted assignment in violation of this Section will be void and without effect. Subject to the foregoing, this Agreement will benefit and bind the Parties' successors and permitted assigns.

b. Construction. The Parties acknowledge and agree that this Agreement has been drafted and prepared through the efforts of both Parties and the rule of construction that any vague or ambiguous terms are to be construed against the Party drafting such terms shall not be applied to either Party to this Agreement.

c. Applicable Law; Attorneys' Fees. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to conflict of law principles thereof. In any action to enforce this Agreement the prevailing Party will be entitled to costs and reasonable attorneys' fees.

d. Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior discussions, documents, agreements and prior course of dealing, and shall not be effective until signed by both Parties.

e. Amendment and Waiver. Except as otherwise expressly provided herein, any provision of this Agreement may be amended or modified and the observance of any provision of this Agreement may be waived (either generally or any particular instance and either retroactively or prospectively) only with the written consent of the Parties. The failure of either Party to enforce its rights under this Agreement at any time for any period shall not be construed as a waiver of such rights.

f. Severability. In the event that any of the provisions of this Agreement shall be held by a court or other tribunal of competent jurisdiction to be unenforceable, such provisions shall be limited or eliminated to the minimum extent necessary so that this Agreement shall otherwise remain in full force and effect and enforceable.

g. Publicity. Any press releases in connection with this Agreement shall be subject to the prior written mutual approval of the Parties.

h. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

i. Headings. Headings and captions are for convenience only and are not to be used in the interpretation of this Agreement.



IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date. All signed copies of this Agreement shall be deemed originals.

PRICELINE.COM INCORPORATED

By: /s/ Robert J. Mylod Jr.  
Name: Robert J. Mylod Jr.  
Title: Vice President

E\*TRADE GROUP, INC.

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date. All signed copies of this Agreement shall be deemed originals.

PRICELINE.COM INCORPORATED

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

E\*TRADE GROUP, INC.

By: Jerry Gramalia  
Name: /s/ Jerry Gramalia  
Title: SVP, illegible

EXHIBIT A

1. Co-Marketer's Promotional and Advertising Obligations. Co-Marketer agrees to undertake the following promotional efforts and obligations hereunder:

a. E\*TRADE IPO Program. Co-Marketer agrees to establish and continue the E\*TRADE/IPO account program (the "E\*TRADE IPO Program") on the Co-Marketer Site, including a Link to a Web page established by E\*TRADE on the E\*TRADE Site specifically designed for Co-Marketer's initial public offering, on which Web page Co-Marketer's customers may complete an E\*TRADE standard brokerage account application. The E\*TRADE IPO Program shall continue in effect until the earlier of (x) the consummation of the Co-Marketer's initial public offering of its common stock (the "IPO Shares"), or (y) a mutually agreeable time established by both Parties.

b. E\*TRADE Adaptive Marketing Program. Co-Marketer and E\*TRADE agree to establish an adaptive marketing upsell program whereby Co-Marketer will establish a Link in the core path of its airline ticket offer form, which Link will enable Co-Marketer's customers to click directly to a Web page established by E\*TRADE on the E\*TRADE Dedicated Server specifically designed to enable Co-Marketer's customers to complete an E\*TRADE brokerage account application (non-IRA) (the "E\*TRADE Adaptive Marketing Program"). Under the E\*TRADE Adaptive Marketing Program, each customer of Co-Marketer who submits an offer and clicks on the Link to E\*TRADE's Web page on the E\*TRADE Dedicated Server and completes the required account application disclosures will automatically have his/her offer increased by \$75.

EXHIBIT B

1. E\*TRADE's Obligations. E\*TRADE agrees to take the following actions to facilitate the implementation of the Agreement:

a. Offer eligible Co-Marketer customers who are approved for an E\*TRADE brokerage account and eligible to purchase IPO Shares based on E\*TRADE's established criteria, first priority over other E\*TRADE customers who submit indications of interest to purchase IPO Shares, to purchase up to 100 IPO Shares per account from the IPO Shares allocated to E\*TRADE;

b. Establish a Web page and Link from the E\*TRADE Site to the Co-Marketer Site that describes the E\*TRADE IPO Program in a manner that is acceptable to Co-Marketer and E\*TRADE;

c. Establish a Web page and Link from the E\*TRADE site to the Co-Marketer Site that describes the E\*TRADE Adaptive Marketing Program in a manner that is acceptable to Co Marketer and E\*TRADE; and

d. Use its reasonable best efforts to work with Co-Marketer to develop and administer the E\*TRADE Adaptive Marketing Program.

EXHIBIT C

Compensation

1. Media Services Fees: In consideration of Co-Marketer's performance and obligations set forth in the Agreement, E\*TRADE will pay to Co-Marketer, the fees described in subsections a. and b. below (collectively, the "Media Services Fees"):

a. Standard Daily Fee. Commencing on the Effective Date, and continuing until the later of (y) the termination of the Agreement and (z) the 91st day following the Effective Date, E\*TRADE will pay a guaranteed, non-refundable fee (the "Daily Fee") as follows:

i) \$8,300 per day until such time as E\*TRADE has established 3,000 Submitted Applications.

ii.) Upon the establishment of the 3,000th Submitted Application through the Agreement, the Daily Fee shall be increased to \$14,000 per day commencing on the date the 3000th account was first established.

iii) Upon the establishment of the 7,500th Submitted Application through the Agreement, the Daily Fee shall be increased to \$35,000 per day commencing on the date the 7,500th account was first established;

iv) Upon the establishment of the 11,000th Submitted Application through the Agreement, the Daily Fee shall be increased to \$65,000 per day commencing on the date the 11,000th account was first established; and

v) Upon the establishment of the 15,000th Submitted Application through the Agreement, the Daily Fee shall be increased to \$95,000 per day commencing on the date the 15,000th account was first established.

b. Successful Offer Fee.

i) Commencing on the date of launch of the E\*TRADE Adaptive Marketing Program on the Co-Marketer Site and continuing until the termination thereof, Co-Marketer shall record the aggregate number of Successful Offers (as such term is defined in Section 1j. of the Agreement) achieved in each calendar month. Co-Marketer shall only record one Successful Offer and charge one Successful Offer Fee per customer. Subject to the limitations herein set forth, E\*TRADE shall pay Co-Marketer a Successful Offer Fee (as such term is defined in Section 1k. of the Agreement) for each Successful Offer recorded in each calendar month, provided, however that until such time as the aggregate of all Successful Offer Fees for any calendar month exceeds the aggregate of all Daily Fees payable pursuant to subsection a. above for the same month, such Successful Offer Fees shall be offset against the aggregate Daily Fees

payable for such month. If in any calendar month, the aggregate of all Successful Offer Fees exceeds the aggregate of all Daily fees, E\*TRADE shall, in addition to its payment obligations under subsection a. above, pay Co-Marketer only that portion of the Successful Offer Fees that are in excess of the aggregate Daily Fees.

ii) Co-Marketer shall maintain a daily log of Successful Offers (the "Successful Offer Log") while the E\*TRADE Adaptive Marketing Program is in effect, which shall specify (i) the date of each Successful Offer, (ii) the number of Successful Offers for the preceding day (iii) the aggregate number of Successful Offers for the previously completed week and (iv) the aggregate of Successful Offer Fees for the previously completed week. Co-Marketer shall deliver to E\*TRADE, in a digital format to be agreed upon by the Parties, the Successful Offer Log for the previously completed week not later than Wednesday of each week during the Term of the Agreement. With respect to the Successful Offer Log to be delivered in the first week after each calendar month end, such log shall specify the net amount of Successful Offer Fees in excess of the Daily Fees payable for such completed month, if any.

## 2. Payment Dates

On or prior to March 15, 1999, April 15, 1999, May 15, 1999 and June 15, 1999, E\*TRADE shall deliver to Co-Marketer a cash payment in the amount of the aggregate Media Services Fees for each day of the previous month.

3. Submitted Applications. E\*TRADE shall maintain a daily log of Submitted Applications (the "Submitted Applications Log"), which log shall specify (i) the number of Submitted Applications collected for the preceding day, (ii) the Co-Marketer Link from which each applicant who delivered a Submitted Application accessed E\*TRADE's application page (i.e., IPO notice page or airline web page), and (iii) the aggregate year-to-date number of Submitted Applications. A Submitted Application Log for the previously completed week shall be transmitted to Co-Marketer (in a digital format to be agreed upon by the Parties) not later than Wednesday of each week during the Term of the Agreement.

## 4. Payment Term

The laws relating to broker-dealer registration are subject to interpretation and may change. Accordingly, if the payments described herein are determined to be prohibited under any law, regulation or rule applicable to a Party's performance of this Agreement, then the Parties shall negotiate and agree upon a mutually acceptable fee structure as an alternative to the payment of the incremental advertising fees described herein.

5. Special Termination Rights. Notwithstanding the provisions of Section 8 of the Agreement, the Parties agree that E\*TRADE may, upon written notice thereof to Co-Marketer, (i) at any time after 90 days following the Effective Date, terminate this entire Agreement, and (ii) at any time, terminate the E\*TRADE Adaptive Marketing Program, provided that any such

termination shall become effective at 12:00 Midnight, Eastern Standard Time, on the day of the month in which such termination notice shall have been delivered to Co-Marketer. Termination pursuant to this Section 5 of Exhibit C shall not affect any obligations of the Parties accruing hereunder for periods prior to the effective date of such termination. Notwithstanding any termination effected pursuant to this Section 5 of Exhibit C or Section 8 of the Agreement, E\*TRADE shall be obligated to pay all Daily Fees that shall accrue for the period commencing on the Effective Date through the 90th day following the Effective Date, as well as all other Media Services Fees that shall have accrued, but shall not have been paid prior to the effective date of such termination.

EXHIBIT D

E\*TRADE Marks

\*E\*TRADE

E\*TRADE (R)

D-1



EXHIBIT E  
Co-Marketer Marks  
priceline.com

E-1

INDEPENDENT ACCOUNTANTS' CONSENT

We consent to use in this Pre-Effective Amendment No. 2 to Registration Statement No. 333-69657 of priceline.com Incorporated on Form S-1 of our report dated February 10, 1999, March \_\_, 1999 as to Note 12 and March 16, 1999 as to Note 13 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement described in Note 13), relating to the combined financial statements of priceline.com Incorporated and Priceline Travel, Inc. appearing in the Prospectus, which is part of this Registration Statement. We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

Stamford, Connecticut

March 17, 1999