Expedia, Inc.
Form 10-Q
July 31, 2008

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

Form 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 000-51447

EXPEDIA, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-2705720**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

3150 139th Avenue SE
Bellevue, WA 98005

(Address of principal executive office) (Zip Code)
(425) 679-7200

(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of each of the registrant s classes of common stock as of July 18, 2008 was:

Common stock, $0.001 par value per share	261,050,092 shares
Class B common stock, $0.001 par value per share	25,599,998 shares

EXPEDIA, INC.
Form 10-Q
For the Quarter Ended June 30, 2008
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Part I. Item 1. Consolidated Financial Statements

EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenue	$ 795,048	$ 689,923	$ 1,482,865	$ 1,240,434
Cost of revenue (1)	168,874	143,646	320,817	264,944
Gross profit	626,174	546,277	1,162,048	975,490
Operating expenses:				
Selling and marketing (1)	299,550	255,905	586,672	478,173
General and administrative (1)	84,679	75,733	173,080	151,896
Technology and content (1)	52,744	41,511	105,046	83,763
Amortization of intangible assets	18,660	19,503	36,711	40,699
Operating income	170,541	153,625	260,539	220,959
Other income (expense):				
Interest income	9,073	10,552	17,188	17,821
Interest expense	(13,342)	(9,902)	(29,042)	(21,078)
Other, net	(5,098)	5,936	(8,771)	441
Total other income (expense), net	(9,367)	6,586	(20,625)	(2,816)
Income before income taxes and minority interest	161,174	160,211	239,914	218,143
Provision for income taxes	(65,944)	(64,076)	(94,916)	(87,688)
Minority interest in loss of consolidated subsidiaries, net	859	1	2,397	457
Net income	$ 96,089	$ 96,136	$ 147,395	$ 130,912
Net earnings per share available to common stockholders:				
Basic	$ 0.34	$ 0.32	$ 0.52	$ 0.43
Diluted	0.33	0.30	0.50	0.41
Shares used in computing earnings per share:				
Basic	285,986	303,035	285,547	305,426
Diluted	293,999	320,196	294,010	321,966

(1) Includes stock-based compensation as follows:				
Cost of revenue	$ 569	$ 646	$ 1,244	$ 1,529
Selling and marketing	2,836	2,804	6,575	6,039

General and administrative	8,018	7,004	16,968	14,673
Technology and content	3,431	3,518	7,873	7,591
Total stock-based compensation	$ 14,854	$ 13,972	$ 32,660	$ 29,832

See accompanying notes.

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EXPEDIA, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,027,553	$ 617,386
Restricted cash and cash equivalents	26,937	16,655
Accounts receivable, net of allowance of $8,135 and $6,081	398,500	268,008
Prepaid merchant bookings	129,681	66,778
Prepaid expenses and other current assets	100,688	76,828
Total current assets	1,683,359	1,045,655
Property and equipment, net	208,864	179,490
Long-term investments and other assets	112,674	93,182
Intangible assets, net	980,214	970,757
Goodwill	6,136,371	6,006,338
TOTAL ASSETS	$ 9,121,482	$ 8,295,422
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable, merchant	$ 830,576	$ 704,044
Accounts payable, other	185,629	148,233
Deferred merchant bookings	1,217,467	609,117
Deferred revenue	19,009	11,957
Income taxes payable	41,729	
Accrued expenses and other current liabilities	284,861	301,001
Total current liabilities	2,579,271	1,774,352
Long-term debt	894,296	500,000
Credit facility		585,000
Deferred income taxes, net	361,772	351,168
Other long-term liabilities	216,800	204,886
Minority interest	59,315	61,935
Commitments and contingencies		
Stockholders equity:		
Preferred stock $.001 par value		
Authorized shares: 100,000		
Series A shares issued and outstanding: 1 and 1		
Common stock $.001 par value	339	337
Authorized shares: 1,600,000		
Shares issued: 338,961 and 337,057		
Shares outstanding: 260,901 and 259,489		
Class B common stock $.001 par value	26	26

Authorized shares: 400,000		
Shares issued and outstanding: 25,600 and 25,600		
Additional paid-in capital	5,950,983	5,902,582
Treasury stock Common stock, at cost	(1,730,091)	(1,718,833)
Shares: 78,060 and 77,568		
Retained earnings	749,599	602,204
Accumulated other comprehensive income	39,172	31,765
Total stockholders equity	5,010,028	4,818,081
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 9,121,482	$ 8,295,422

See accompanying notes.

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EXPEDIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating activities:		
Net income	$ 147,395	$ 130,912
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including internal-use software and website development	35,364	28,050
Amortization of intangible assets and stock-based compensation	69,371	70,531
Deferred income taxes	(9,082)	722
(Gain) loss on derivative instruments, net	(4,580)	4,544
Equity in loss of unconsolidated affiliates	1,916	3,554
Minority interest in loss of consolidated subsidiaries, net	(2,397)	(457)
Foreign exchange (gain) loss on cash and cash equivalents, net	2,314	(4,686)
Other	1,147	2,913
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(118,404)	(93,517)
Prepaid merchant bookings and prepaid expenses	(90,067)	(70,854)
Accounts payable, merchant	124,336	178,076
Accounts payable, other, accrued expenses and other current liabilities	98,432	118,734
Deferred merchant bookings	608,288	551,691
Deferred revenue	7,021	2,400
Net cash provided by operating activities	871,054	922,613
Investing activities:		
Capital expenditures, including internal-use software and website development	(70,733)	(38,974)
Acquisitions, net of cash acquired	(178,313)	(59,622)
Increase in long-term investments and deposits	(11,106)	(29,594)
Proceeds from sale of business to a related party	1,624	
Net cash used in investing activities	(258,528)	(128,190)
Financing activities:		
Credit facility borrowings	90,000	150,000
Credit facility repayments	(675,000)	(150,000)
Proceeds from issuance of long-term debt, net of issuance costs	393,818	
Changes in restricted cash and cash equivalents	(11,838)	(11,614)
Proceeds from exercise of equity awards	3,709	34,885
Excess tax benefit on equity awards	1,551	1,608
Treasury stock activity	(11,215)	(668,018)
Other, net		393

Net cash used in financing activities	(208,975)	(642,746)
Effect of exchange rate changes on cash and cash equivalents	6,616	6,453
Net increase in cash and cash equivalents	410,167	158,130
Cash and cash equivalents at beginning of period	617,386	853,274
Cash and cash equivalents at end of period	$ 1,027,553	$ 1,011,404
Supplemental cash flow information		
Cash paid for interest	$ 28,990	$ 19,775
Income tax payments, net	48,657	5,888

See accompanying notes.

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Notes to Consolidated Financial Statements
June 30, 2008
(Unaudited)

Note 1 Basis of Presentation

Description of Business

Expedia, Inc. and its subsidiaries provide travel products and services to leisure and corporate travelers in the United States and abroad. These travel products and services are offered through a diversified portfolio of brands including: Expedia.com®, hotels.com®, Hotwire.com™, our private label programs (Worldwide Travel Exchange and Interactive Affiliate Network), Classic Vacations, Egencia™ (formerly Expedia® Corporate Travel), eLong™, Inc. (eLong) and TripAdvisor® Media Network. In addition, many of these brands have related international points of sale. We refer to Expedia, Inc. and its subsidiaries collectively as Expedia, the Company, us, we and our in these consolidated financial statements.

Basis of Presentation

These accompanying financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited consolidated financial statements include Expedia, Inc., our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of future cash profits or losses. We have eliminated significant intercompany transactions and accounts.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting. We have included all adjustments necessary for a fair presentation of the results of the interim period. These adjustments consist of normal recurring items. Our interim unaudited consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, previously filed with the Securities and Exchange Commission (SEC).

Accounting Estimates

We use estimates and assumptions in the preparation of our interim unaudited consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our interim unaudited consolidated financial statements. These estimates and assumptions also affect the reported amount of net income during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our interim unaudited consolidated financial statements include revenue recognition, recoverability of long-lived and intangible assets and goodwill, income and indirect taxes, such as potential settlements related to occupancy taxes, stock-based compensation and accounting for derivative instruments.

Reclassifications

We have reclassified prior period financial statements to conform to the current period presentation.

Seasonality

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, traditional leisure travel bookings are generally the highest in the first three quarters as travelers plan and book their spring, summer and holiday travel. The number of bookings decreases in the fourth quarter. Because revenue in our merchant

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Notes to Consolidated Financial Statements (Continued)

business is generally recognized when the travel takes place rather than when it is booked, revenue typically lags bookings by several weeks or longer. As a result, revenue is typically the lowest in the first quarter and highest in the third quarter.

Note 2 Summary of Significant Accounting Policies

Recently Adopted Accounting Pronouncements

On January 1, 2008, we adopted certain provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 applies when another standard requires or permits assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not require any new fair value measurements. We will adopt the provisions of SFAS 157 as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis on January 1, 2009. The partial adoption of SFAS 157 did not materially impact, nor do we expect the full adoption to materially impact, our consolidated financial statements.

On January 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS Statement No. 115* (SFAS 159). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates as defined in the standard. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. As we did not elect fair value treatment for qualifying instruments that existed as of January 1, 2008, the adoption of this Statement did not have an impact on our consolidated financial statements. We may elect to measure qualifying instruments at fair value in the future.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141R, *Business Combinations* (SFAS 141R), which replaces SFAS 141. SFAS 141R applies to all transactions or other events in which an entity obtains control of one or more businesses and requires that all assets and liabilities of an acquired business as well as any noncontrolling interest in the acquiree be recorded at their fair values at the acquisition date. Contingent consideration arrangements will be recognized at their acquisition date fair values, with subsequent changes in fair value generally reflected in earnings. Pre-acquisition contingencies will also typically be recognized at their acquisition date fair values. In subsequent periods, contingent liabilities will be measured at the higher of their acquisition date fair values or the estimated amounts to be realized. The Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are in the process of evaluating the impact of the adoption of SFAS 141R on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Accounting and Reporting on Non-controlling Interest in Consolidated Financial Statements, an Amendment of ARB 51* (SFAS 160), which is effective for fiscal years beginning after December 15, 2008. SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. FAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Upon adoption of SFAS 160, we will recharacterize our minority interest as a noncontrolling interest and classify it as a component of equity in our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161), which is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. We are in the process of evaluating the impact of the adoption of SFAS 161 on our consolidated financial statements.

Notes to Consolidated Financial Statements (Continued)

Note 3 Debt

The following table sets forth our outstanding debt:

	June 30, 2008	December 31, 2007
	(in thousands)	
8.5% senior notes due 2016, net of discount	$ 394,296	$
7.456% senior notes due 2018	500,000	500,000
Long-term debt	894,296	500,000
Credit facility		585,000
Total long-term indebtedness	$ 894,296	$ 1,085,000

Long-term Debt

In June 2008, we privately placed $400 million of 8.5% senior unsecured notes due in July 2016 (the 8.5% Notes). The 8.5% Notes were issued at 98.572% of par resulting in a discount, which is being amortized over their life. Interest is payable semi-annually in January and July of each year, beginning January 1, 2009. The 8.5% Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. Prior to July 1, 2011, in the event of a qualified equity offering, we may redeem up to 35% of the 8.5% Notes at a redemption price of 108.5% of the principal plus accrued interest. Additionally, we may redeem the 8.5% Notes prior to July 1, 2012 in whole or in part at a redemption price of 100% of the principal plus accrued interest, plus a make-whole premium. On or after July 1, 2012, we may redeem the 8.5% Notes in whole or in part at specified prices ranging from 104.250% to 100% of the principal plus accrued interest.

Our $500 million in registered senior unsecured notes outstanding at June 30, 2008 are due in August 2018 and bear interest at 7.456% (the 7.456% Notes). Interest is payable semi-annually in February and August of each year. The 7.456% Notes are repayable in whole or in part on August 15, 2013, at the option of the holders of such 7.456% Notes, at 100% of the principal amount plus accrued interest. We may redeem the 7.456% Notes in accordance with the terms of the agreement, in whole or in part at any time at our option.

The 7.456% and 8.5% Notes are senior unsecured obligations guaranteed by certain domestic Expedia subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations. For further information, see Note 11 Guarantor and Non-Guarantor Supplemental Financial Information. Accrued interest related to the 7.456% and 8.5% Notes was $15 million as of June 30, 2008, and accrued interest related to the 7.456% Notes was $14 million as of December 31, 2007.

Credit Facility

Expedia, Inc. maintains a $1 billion unsecured revolving credit facility with a group of lenders, which is unconditionally guaranteed by certain domestic Expedia subsidiaries and expires in August 2010. No amounts were outstanding as of June 30, 2008. We had $585 million outstanding under the revolving credit facility as of December 31, 2007. The facility bears interest based on market interest rates plus a spread, which is determined based on our financial leverage. The interest rate was 5.70% as of December 31, 2007. The annual fee to maintain the facility is 0.1% on the unused portion of the facility, or approximately $1 million if the entire facility is unused.

The amount of stand-by letters of credit (LOC) issued under the facility reduces the credit amount available. As of June 30, 2008, and December 31, 2007, there was $65 million and $52 million of outstanding stand-by LOCs issued under the facility.

Notes to Consolidated Financial Statements (Continued)

Note 4 Derivative Instruments

The fair values of the derivative financial instruments generally represent the estimated amounts we would expect to receive or pay upon termination of the contracts as of the reporting date.

As a result of our separation from IAC/InterActiveCorp (IAC) on August 9, 2005 (the Spin-Off), we assumed certain obligations of IAC related to IAC s Ask Jeeves Notes. The estimated fair value of this liability fluctuated primarily based on changes in the price of our common stock. During the three months ended June 30, 2008, the remainder of these notes converted and we released approximately 0.5 million shares of our common stock with a fair value of $11 million to satisfy the final conversion requirements. During the three months ended June 30, 2008 and 2007, we recognized net losses of less than $1 million and $3 million related to these Ask Jeeves Notes. During the six months ended June 30, 2008 and 2007, we recognized net gains of $4 million and net losses of $4 million related to these Ask Jeeves Notes. As of June 30, 2008, we have no further obligations related to the Ask Jeeves Notes. As of December 31, 2007, the related derivative liability balance was $15 million and was included in accrued expenses and other current liabilities on our consolidated balance sheets.

We entered into cross-currency swaps to hedge against the change in value of certain intercompany loans denominated in currencies other than the lending subsidiaries functional currency. These swaps have been designated as cash flow hedges and are re-measured at fair value each reporting period. The fair values of our cross-currency swaps are determined using Level 3 valuation techniques, as defined in SFAS 157, and are based on the present value of net future cash payments and receipts, which fluctuate based on changes in market interest rates and the euro/U.S. dollar exchange rate. As of June 30, 2008 and December 31, 2007, the related derivative liability balances were $31 million and $21 million and were included in other long-term liabilities on our consolidated balance sheets.

Note 5 Stockholders Equity

Stock-based Awards

Stock-based compensation expense relates primarily to expense for restricted stock units (RSUs) and stock options. Since February 2003, we have awarded RSUs as our primary form of employee stock-based compensation. Our stock-based awards generally vest over five years.

As of June 30, 2008, we had stock-based awards outstanding representing approximately 18 million shares of our common stock consisting of approximately 9 million RSUs and stock options to purchase approximately 9 million common shares with a weighted average exercise price of $25.35 and weighted average remaining life of 4.3 years.

Annual employee RSU grants typically occur during the first quarter of each year. During the six months ended June 30, 2008, we granted 3 million RSUs.

Comprehensive Income

Comprehensive income was $97 million and $99 million for the three months ended June 30, 2008 and 2007, and $155 million and $135 million for the six months ended June 30, 2008 and 2007. The primary differences between net income as reported and comprehensive income were foreign currency translation adjustments and net gains (losses) on cross-currency hedge contracts.

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Notes to Consolidated Financial Statements (Continued)

Note 6 Earnings Per Share

The following table presents our basic and diluted earnings per share:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(in thousands, except per share data)			
Net income	$ 96,089	$ 96,136	$ 147,395	$ 130,912
Net earnings per share available to common stockholders:				
Basic	$ 0.34	$ 0.32	$ 0.52	$ 0.43
Diluted	0.33	0.30	0.50	0.41
Weighted average number of shares outstanding:				
Basic	285,986	303,035	285,547	305,426
Dilutive effect of:				
Options to purchase common stock	1,270	8,909	1,371	8,604
Warrants to purchase common stock	5,457	6,084	5,540	5,541
Other dilutive securities	1,286	2,168	1,552	2,395
Diluted	293,999	320,196	294,010	321,966

The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Note 7 Acquisitions and Other Investments

During the six months ended June 30, 2008, we acquired three online travel media content companies and one online travel product and service company. The purchase price of these companies and other acquisition-related costs totaled $173 million. As a result of these acquisitions, we recorded $123 million in goodwill and $45 million of intangible assets with definite lives. The purchase price allocation for one of these acquisitions is preliminary and subject to revision, and any change to the fair value of net assets acquired will lead to a corresponding change to the purchase price allocable to goodwill. In one of these transactions, we acquired a 74% controlling interest with certain rights whereby we may acquire, and the minority shareholders may sell to us, the additional shares of the company at fair value at various times through 2011. The results of operations of each of the acquired businesses have been included in our consolidated results from each transaction closing date forward; their effect on consolidated revenue and operating income during the first half of 2008 was not significant.

In July 2008, we entered into an agreement to acquire European-based Venere Net SpA, an online travel provider that focuses on hotel reservations under an agency model. The transaction is expected to close in the third quarter of 2008.

Note 8 Commitments and Contingencies

Legal Proceedings

In the ordinary course of business, we are a party to various lawsuits. In the opinion of management, we do not expect these lawsuits to have a material impact on the liquidity, results of operations, or financial condition of Expedia. We also evaluate other potential contingent matters, including value-added tax, federal excise tax, transient occupancy or accommodation tax and similar matters. We do not believe that the aggregate amount of liability that could be reasonably possible with respect to these matters would have a material adverse effect on our financial results.

Notes to Consolidated Financial Statements (Continued)

Litigation Relating to Hotel Occupancy Taxes. Lawsuits have been filed by forty-two cities and counties involving hotel occupancy taxes. In addition, there have been five consumer lawsuits filed relating to taxes and fees. The municipality and consumer lawsuits are in various stages ranging from responding to the complaint to discovery. We continue to defend these lawsuits vigorously. To date, fourteen of the municipality lawsuits have been dismissed. Most of these dismissals have been without prejudice and, generally, allow the municipality to seek administrative remedies prior to pursuing further litigation. Four dismissals (Pitt County, North Carolina; Findlay, Ohio; Columbus and Dayton, Ohio; and City of Orange, Texas) were based on a finding that the defendants were not subject to the local hotel occupancy tax ordinance. As a result of this litigation and other attempts by certain jurisdictions to levy such taxes, we have established a reserve for the potential settlement of issues related to hotel occupancy taxes in the amount of $20 million and $19 million at June 30, 2008 and December 31, 2007. Our reserve is based on our best estimate and the ultimate resolution of these issues may be greater or less than the liabilities recorded.

Note 9 Related Party Transactions

Commercial Agreements with IAC

Since the Spin-Off, we have continued to work with some of IAC s businesses pursuant to a variety of commercial relationships. These commercial relationships generally include (i) distribution agreements, pursuant to which certain subsidiaries of IAC distribute their respective products and services via arrangements with Expedia, and vice versa, (ii) services agreements, pursuant to which certain subsidiaries of IAC provide Expedia with various services and vice versa and (iii) office space lease agreements. The distribution agreements typically involve the payment of fees, usually on a fixed amount-per-transaction, revenue share or commission basis, from the party seeking distribution of the product or service to the party that is providing the distribution. Net operating expenses related to these transactions were approximately $2 million during the six months ended June 30, 2008.

Note 10 Segment Information

We have two reportable segments: North America and Europe. We determined our segments based on how our chief operating decision makers manage our business, make operating decisions and evaluate operating performance. Our primary operating metric for evaluating segment performance is Operating Income Before Amortization (OIBA as defined below), which includes allocations of certain expenses, primarily cost of revenue and facilities, to the segments. We base the allocations primarily on transaction volumes and other usage metrics; this methodology is periodically evaluated and may change. We do not allocate certain shared expenses such as partner services, product development, accounting, human resources and legal to our reportable segments. We include these expenses in Corporate and Other.

Our North America segment provides a full range of travel and/or advertising services to customers primarily located in the United States, Canada and Mexico. This segment operates through a variety of brands including Classic Vacations, Expedia.com, hotels.com, Hotwire.com and TripAdvisor Media Network. Our Europe segment provides travel services primarily through localized Expedia websites in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom, as well as localized versions of hotels.com in various European countries.

Corporate and Other includes Egencia, Expedia Asia Pacific and unallocated corporate functions and expenses. Egencia provides travel products and services to corporate customers in North America, Europe and China. Expedia Asia Pacific provides online travel information and reservation services primarily through eLong in China, localized Expedia websites in Australia, India, Japan and New Zealand, as well as localized versions of hotels.com in various Asian countries. In addition, we record amortization of intangible assets and any related impairment, as well as stock-based compensation expense in Corporate and Other.

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Notes to Consolidated Financial Statements (Continued)

The following table presents our segment information for the three and six months ended June 30, 2008 and 2007. As a significant portion of our property and equipment is not allocated to our operating segments, we do not report the assets or related depreciation expense as it would not be meaningful, nor do we regularly provide such information to our chief operating decision makers.

	Three months ended June 30, 2008		
			Corporate
	North		and
	America	Europe&nbs	