EBAY INC
Form 10-Q
July 27, 2007

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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, 2007

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 000-24821
eBay Inc.
(Exact name of registrant as specified in its charter)

Delaware	**74-0430924**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
2145 Hamilton Avenue	**95125**
San Jose, California	*(Zip Code)*
(Address of principal executive offices)	

(408) 376-7400
(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer 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

As of July 20, 2007 there were 1,358,453,486 shares of the registrant s common stock, $0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

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PART I: FINANCIAL INFORMATION

Item 1: *Financial Statements*

eBay Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

	December 31, 2006	June 30, 2007
	(In thousands, except par value amounts)	(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,662,792	$ 3,418,349
Short-term investments	542,103	181,983
Accounts receivable, net	393,195	379,850
Funds receivable	399,297	502,041
Restricted cash	12,738	17,207
Other current assets	960,461	980,946
Total current assets	4,970,586	5,480,376
Long-term investments	277,853	176,138
Property and equipment, net	998,196	1,032,673
Goodwill	6,544,278	6,917,265
Intangible assets, net	682,977	681,240
Other assets	20,121	73,465
Total assets	$ 13,494,011	$ 14,361,157
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 83,392	$ 94,487
Funds payable and amounts due to customers	1,159,952	1,293,457
Accrued expenses and other current liabilities	681,669	725,969
Deferred revenue and customer advances	128,964	145,236
Income taxes payable	464,418	69,494
Total current liabilities	2,518,395	2,328,643
Deferred and other tax liabilities, net	31,784	447,788
Other liabilities	39,200	45,197
Total liabilities	2,589,379	2,821,628

Stockholders equity:		
Common Stock, $0.001 par value; 3,580,000 shares authorized; 1,368,512 and 1,358,212 shares outstanding	1,431	1,441
Additional paid-in capital	8,034,282	8,430,167
Treasury stock at cost, 62,250 and 82,813 shares	(1,669,428)	(2,346,935)
Retained earnings	3,842,150	4,595,295
Accumulated other comprehensive income	696,197	859,561
Total stockholders equity	10,904,632	11,539,529
Total liabilities and stockholders equity	$ 13,494,011	$ 14,361,157

The accompanying notes are an integral part of these condensed consolidated financial statements.

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eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
	(In thousands, except per share amounts) (Unaudited)			
Net revenues	$ 1,410,784	$ 1,834,429	$ 2,801,203	$ 3,602,503
Cost of net revenues	296,883	416,789	580,480	810,478
Gross profit	1,113,901	1,417,640	2,220,723	2,792,025
Operating expenses:				
Sales and marketing	384,347	477,768	773,031	921,020
Product development	123,972	147,934	243,042	285,532
General and administrative	236,576	283,478	466,128	561,837
Amortization of acquired intangible assets	57,592	51,554	104,484	98,903
Total operating expenses	802,487	960,734	1,586,685	1,867,292
Income from operations	311,414	456,906	634,038	924,733
Interest and other income, net	25,629	33,967	51,388	63,987
Interest expense	(929)	(2,734)	(1,676)	(7,276)
Income before income taxes	336,114	488,139	683,750	981,444
Provision for income taxes	(86,120)	(112,315)	(185,474)	(228,444)
Net income	$ 249,994	$ 375,824	$ 498,276	$ 753,000
Net income per share:				
Basic	$ 0.18	$ 0.28	$ 0.35	$ 0.55
Diluted	$ 0.17	$ 0.27	$ 0.35	$ 0.55
Weighted average shares:				
Basic	1,411,925	1,361,046	1,409,190	1,363,986
Diluted	1,435,757	1,378,697	1,438,746	1,381,484

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
	(In thousands) (Unaudited)			
Net income	$ 249,994	$ 375,824	$ 498,276	$ 753,000
Other comprehensive income:				
Foreign currency translation	154,848	95,445	282,381	163,241
Unrealized gains on investments, net	2,417	404	5,010	684
Unrealized losses on hedging activities	(1,347)	(367)	(2,912)	(480)
Tax provision on above items	(442)	(11)	(912)	(81)
Net change in accumulated other comprehensive income	155,476	95,471	283,567	163,364
Comprehensive income	$ 405,470	$ 471,295	$ 781,843	$ 916,364

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30,	
	2006	2007
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net income	$ 498,276	$ 753,000
Adjustments:		
Provision for doubtful accounts and authorized credits	51,874	45,247
Provision for transaction losses	49,906	69,769
Depreciation and amortization	265,712	290,171
Stock-based compensation related to stock options and employee stock purchases	169,226	151,571
Tax benefits from stock-based compensation	90,524	53,009
Excess tax benefits from stock-based compensation	(60,973)	(29,774)
Deferred income taxes	(13,300)	(51,177)
Changes in assets and liabilities, net of acquisition effects:		
Accounts receivable	(37,598)	(32,917)
Funds receivable	33,810	(100,437)
Other current assets	(133,491)	(22,873)
Other non-current assets	8,777	(57,833)
Accounts payable	75,292	8,560
Funds payable and amounts due to customers	80,015	118,546
Accrued expenses and other liabilities	(25,722)	(27,425)
Deferred revenue and customer advances	24,664	16,534
Income taxes payable and other tax liabilities	22,725	35,106
Net cash provided by operating activities	1,099,717	1,219,077
Cash flows from investing activities:		
Purchases of property and equipment, net	(282,008)	(206,741)
Purchases of investments	(491,224)	(160,143)
Maturities and sales of investments	761,159	625,267
Acquisitions, net of cash acquired	(45,505)	(320,195)
Other	(1,245)	2,112
Net cash used in investing activities	(58,823)	(59,700)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	175,001	184,441
Excess tax benefits from stock-based compensation	60,973	29,774
Repurchases of common stock, net		(674,861)
Net cash provided by (used in) financing activities	235,974	(460,646)

Effect of exchange rate changes on cash and cash equivalents	43,933	56,826
Net increase in cash and cash equivalents	1,320,801	755,557
Cash and cash equivalents at beginning of period	1,313,580	2,662,792
Cash and cash equivalents at end of period	$ 2,634,381	$ 3,418,349
Supplemental cash flow disclosures:		
Cash paid for interest	$ 1,224	$ 4,070
Cash paid for income taxes	$ 92,357	$ 217,505

The accompanying notes are an integral part of these condensed consolidated financial statements.

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eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 The Company and Summary of Significant Accounting Policies

The Company

eBay Inc. (eBay) was incorporated in California in May 1996, and reincorporated in Delaware in April 1998. eBay s purpose is to pioneer new communities around the world, built on commerce, sustained by trust and inspired by opportunity. eBay brings together millions of buyers and sellers every day on a local, national and international basis through an array of websites. eBay provides online marketplaces for the sale of goods and services, online payment services and online communication offerings to a diverse community of individuals and businesses.

eBay has three operating segments: Marketplaces, Payments and Communications. The Marketplaces segment enables online commerce through a variety of different platforms, including the traditional eBay auction site, our classifieds websites, our comparison shopping site, Shopping.com, our secondary tickets platform, StubHub, and Rent.com. The Payments segment, which consists of our PayPal, Inc. (PayPal) business, enables individuals or businesses to securely, easily and quickly send and receive payments online. The Communications segment, which consists of our Skype Technologies SA (Skype) business, enables Voice over Internet Protocol (VoIP) communications between Skype users, and provides low-cost connectivity to traditional fixed-line and mobile telephones.

When we refer to we, our, us or eBay in this document, we mean the current Delaware corporation (eBay Inc.) and California predecessor, as well as all of our consolidated subsidiaries.

Use of estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to provisions for doubtful accounts and authorized credits, the provision for transaction losses, legal contingencies, income taxes, advertising and other net revenues, stock-based compensation expense and goodwill and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Principles of consolidation and basis of presentation

The accompanying financial statements are consolidated and include the financial statements of eBay and our majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements include 100% of the assets and liabilities of majority-owned subsidiaries, and the ownership interests of minority investors are recorded as minority interests. Investments in entities where we hold more than a 20%, but less than a 50%, ownership interest and have the ability to significantly influence the operations of the investee are accounted for using the equity method of accounting and the investment balance is included in long-term investments, while our share of the investees results of operations is included in interest and other income, net. For the three- and six month periods ended June 30, 2006 and 2007, the equity method income recorded in

interest and other income, net was not material to our operating results. Investments in entities where we hold less than a 20% ownership interest and where we do not have the ability to significantly influence the operations of the investee are accounted for using the cost method of accounting and are included in long-term investments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These unaudited interim financial statements reflect our condensed consolidated financial position as of December 31, 2006 and June 30, 2007. These statements also show our condensed consolidated statement of income and condensed consolidated statement of comprehensive income for the three- and six-month periods ended June 30, 2006 and 2007 and our condensed consolidated statement of cash flows for the six months ended June 30, 2006 and 2007. These statements include all normal recurring adjustments that we believe are necessary to fairly state our financial position, operating results and cash flows. Because all of the disclosures required by generally accepted accounting principles in the United States of America for annual consolidated financial statements are not included herein, these interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2006, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2007. The condensed consolidated balance sheet as of December 31, 2006 was derived from our audited financial statements for the year ended December 31, 2006, but does not include all disclosures required by generally accepted accounting principles. The condensed consolidated statements of income and cash flows for the periods presented are not necessarily indicative of results that we expect for any future period.

Certain prior period balances have been reclassified to conform to the current period presentation.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a framework for measuring fai value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We will be required to adopt the provisions on FAS 157 on January 1, 2008. We are currently evaluating the impact of adopting the provisions of FAS 157 but we do not believe that the adoption of FAS 157 will materially impact our financial position, cash flows, or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Net Income Per Share

Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Numerator:				
Net income	$ 249,994	$ 375,824	$ 498,276	$ 753,000
Denominator:				
Weighted average common shares	1,412,408	1,361,565	1,409,478	1,364,518
Weighted average nonvested common stock subject to forfeiture/repurchase	(483)	(519)	(288)	(532)
Denominator for basic calculation	1,411,925	1,361,046	1,409,190	1,363,986
Weighted average effect of dilutive securities:				
Weighted average nonvested common stock subject to forfeiture/repurchase	483	519	288	532
Employee stock options	23,349	17,132	29,268	16,966
Denominator for diluted calculation	1,435,757	1,378,697	1,438,746	1,381,484
Net income per share:				
Basic	$ 0.18	$ 0.28	$ 0.35	$ 0.55
Diluted	$ 0.17	$ 0.27	$ 0.35	$ 0.55

The calculation of diluted net income per share excludes all anti-dilutive shares. For the three months ended June 30, 2006 and 2007, the number of anti-dilutive shares, as calculated based on the weighted average closing price of our common stock for the periods, was approximately 80.0 million and 89.0 million shares, respectively. For the six months ended June 30, 2006 and 2007, the number of anti-dilutive shares, as calculated based on the weighted average closing price of our common stock for the periods, was approximately 54.8 million and 90.0 million shares, respectively.

Note 3 Business Combinations, Goodwill and Intangible Assets

Acquisition of StubHub, Inc.

On February 13, 2007, we acquired all of the outstanding shares of StubHub, Inc. (StubHub) for a total purchase price of $292.4 million. The purchase price was comprised of cash totaling $283.2 million, $1.1 million in estimated acquisition-related expenses and the assumption of StubHub s outstanding common stock options, valued at approximately $8.1 million. The fair value of StubHub stock options assumed was determined using a Black-Scholes model. StubHub is an online marketplace that facilitates the resale of event tickets and is included within our Marketplaces segment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We accounted for the acquisition as a taxable purchase transaction and, accordingly, the purchase price has been allocated to the tangible assets, liabilities assumed, and identifiable intangible assets acquired based on their estimated fair values on the acquisition date. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired is determined using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. Purchased intangible assets are amortized on a straight-line basis over the respective useful lives. Our preliminary allocation of the purchase price is summarized below (in thousands):

Net liabilities assumed, net of cash of $25,780	$ (15,663)
Goodwill	221,604
Trade name	44,400
User base	29,000
Developed technology	13,100
Total	$ 292,441

The estimated useful economic lives of the identifiable intangible assets acquired are three years for the trade name and developed technology and five years for the user base. The final purchase price allocation will depend upon the completion of our integration plan by the end of the first quarter of 2008.

The results of operations for the acquired business have been included in our condensed consolidated statement of income for the period subsequent to our acquisition of StubHub. StubHub s results of operations for periods prior to this acquisition were not material to our condensed consolidated statement of income and, accordingly, pro forma financial information has not been presented.

Goodwill

The following table presents goodwill balances and the movements for each of our reportable segments during the six months ended June 30, 2007 (in thousands):

	December 31, 2006	Goodwill Acquired	Adjustments	June 30, 2007
Reportable segments:				
Marketplaces	$ 2,648,027	$ 276,071	$ 34,220	$ 2,958,318
Payments	1,348,633		(261)	1,348,372
Communications	2,574,979		62,956	2,637,935
	$ 6,571,639	$ 276,071	$ 96,915	$ 6,944,625

Changes to goodwill during the six months ended June 30, 2007 resulted primarily from acquisitions and foreign currency translation adjustments.

Investments accounted for under the equity method of accounting are classified on our balance sheet as long-term investments. Such investments include identifiable intangible assets, deferred tax liabilities and goodwill. As of December 31, 2006 and June 30, 2007, the goodwill related to our equity investments, included above, was approximately $27.4 million.

We conduct our annual impairment test of goodwill as of August 31 of each year. Based on our last impairment test as of August 31, 2006, we determined there was no impairment. There were no events or circumstances from that date through June 30, 2007 indicating that an interim assessment was necessary.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible Assets

The components of acquired identifiable intangible assets are as follows (dollars in thousands):

	December 31, 2006				June 30, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Economic Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Economic Life (Years)
Intangible assets:								
Customer lists and user base	$ 545,527	$ (240,340)	$ 305,187	6	$ 579,495	$ (286,476)	$ 293,019	6
Trademarks and trade names	480,358	(171,390)	308,968	5	543,369	(224,925)	318,444	5
Developed technologies	103,351	(63,912)	39,439	4	122,740	(74,186)	48,554	4
All other	58,115	(26,232)	31,883	4	56,063	(32,918)	23,145	4
	$ 1,187,351	$ (501,874)	$ 685,477		$ 1,301,667	$ (618,505)	$ 683,162	

As of December 31, 2006 and June 30, 2007, the net carrying amount of intangible assets related to our equity investments included above was approximately $2.5 million and $1.9 million, respectively. All of our acquired identifiable intangible assets are subject to amortization. Aggregate amortization expense for intangible assets was $63.3 million and $57.9 million for the three months ended June 30, 2006 and 2007, respectively. Aggregate amortization expense for intangible assets was $116.7 million and $110.9 million for the six months ended June 30, 2006 and 2007, respectively.

As of June 30, 2007, expected future intangible asset amortization was as follows (in thousands):

Fiscal Years:	
2007 (remaining six months)	$ 115,055
2008	224,159
2009	202,330
2010	110,970
2011	22,647
Thereafter	8,001
	$ 683,162

Note 4 Segments

Operating segments are based upon our internal organization structure, the manner in which our operations are managed, the criteria used by our Chief Operating Decision Maker (CODM) to evaluate segment performance and the availability of separate financial information. We have three operating segments: Marketplaces, Payments and Communications.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the financial performance of our operating segments (in thousands):

	Three Months Ended June 30, 2006			
	Marketplaces	**Payments**	**Communications**	**Consolidated**
Net revenues from external customers	$ 1,027,535	$ 339,091	$ 44,158	$ 1,410,784
Direct costs	603,426	251,330	51,615	906,371
Direct contribution	$ 424,109	$ 87,761	$ (7,457)	504,413
Operating expenses and indirect costs of net revenues				192,999
Income from operations				311,414
Interest and other income, net				25,629
Interest expense				(929)
Income before income taxes				$ 336,114

	Three Months Ended June 30, 2007			
	Marketplaces	**Payments**	**Communications**	**Consolidated**
Net revenues from external customers	$ 1,290,552	$ 454,167	$ 89,710	$ 1,834,429
Direct costs	729,920	370,420	80,423	1,180,763
Direct contribution	$ 560,632	$ 83,747	$ 9,287	653,666
Operating expenses and indirect costs of net revenues				196,760
Income from operations				456,906
Interest and other income, net				33,967
Interest expense				(2,734)
Income before income taxes				$ 488,139

	Six Months Ended June 30, 2006			
	Marketplaces	**Payments**	**Communications**	**Consolidated**

Net revenues from external customers	$ 2,047,728	$ 674,157	$ 79,318	$ 2,801,203
Direct costs	1,191,712	499,742	95,623	1,787,077
Direct contribution	$ 856,016	$ 174,415	$ (16,305)	1,014,126
Operating expenses and indirect costs of net revenues				380,088
Income from operations				634,038
Interest and other income, net				51,388
Interest expense				(1,676)
Income before income taxes				$ 683,750

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Six Months Ended June 30, 2007			
	Marketplaces	Payments	Communication	Consolidated
Net revenues from external customers	$ 2,540,752	$ 893,508	$ 168,243	$ 3,602,503
Direct costs	1,419,760	717,581	155,671	2,293,012
Direct contribution	$ 1,120,992	$ 175,927	$ 12,572	1,309,491
Operating expenses and indirect costs of net revenues				384,758
Income from operations				924,733
Interest and other income, net				63,987
Interest expense				(7,276)
Income before income taxes				$ 981,444

Direct costs of operating segments include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, bank charges, site operations expenses, product development expenses, billing operations, certain technology and facilities expenses, transaction expenses, provisions for doubtful accounts, authorized credits and transaction losses. Segment managers do not have discretionary control over expenses such as our corporate center costs (consisting of costs such as corporate management, human resources, finance and legal), amortization of intangible assets and stock-based compensation expenses, as they are not evaluated in the measurement of segment performance. We have also recast our direct costs for prior periods to reflect changes during the third quarter of 2006 in management of billing operations and certain technology and facilities expenses as direct costs.

Note 5 Balance Sheet Component

	December 31, 2006	June 30, 2007
	(In thousands)	
Other current assets:		
Customer accounts	$ 763,757	$ 791,416
Prepaid expenses	64,003	74,858
Deferred tax asset, net	67,879	55,669
Other	64,822	59,003
	$ 960,461	$ 980,946

Customer accounts for certain PayPal foreign subsidiaries include liquid assets set aside for certain customer liabilities as required by regulations in those jurisdictions. These assets may only be held in specified types of highly liquid investments. The customer liabilities represent claims on those foreign subsidiaries and generally against these assets. These assets are included on our balance sheet as current assets with an offsetting current liability in funds payable and amounts due to customers. Customer funds held by PayPal as an agent or custodian, for the benefit of its customers, are not reflected in our condensed consolidated balance sheet.

Note 6 Commitments and Contingencies

Litigation and Other Legal Matters

In April 2001, two of our European subsidiaries, eBay GmbH and eBay International AG, were sued by Montres Rolex S.A. and certain of its affiliates in the regional court of Cologne, Germany. The suit subsequently

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

was transferred to the regional court in Düsseldorf, Germany. Rolex alleged that our subsidiaries were infringing Rolex s trademarks as a result of users selling counterfeit Rolex watches through our German website. The suit also alleged unfair competition. Rolex sought an order enjoining the sale of Rolex-branded watches on the website as well as damages. In December 2002, a trial was held in the matter, and the court ruled in favor of eBay on all causes of action. Rolex appealed the ruling to the Higher Regional Court of Düsseldorf, and the appeal was heard in October 2003. In February 2004, the court rejected Rolex s appeal and ruled in our favor. Rolex appealed the ruling to the German Federal Supreme Court, a hearing took place before that court in December 2006, and a written decision was issued in June 2007. The court s decision found that eBay must take reasonable measures to prevent recurrence once it is informed of clearly identified infringement, and that eBay may in certain circumstances be liable upon first notice of infringement. The court referred the case back to the Higher Regional Court to determine whether, in some circumstances, a low starting listing price was sufficient to indicate that a listing was infringing. We expect that this ruling will likely result in increased litigation against us in Germany although we do not currently believe that it will require a significant change in our business practices.

In August 2006, Louis Vuitton Malletier and Christian Dior Couture filed two lawsuits in the Paris Court of Commerce against eBay Inc. and eBay International AG. The complaint alleges that we violated French tort law by negligently broadcasting listings posted by third parties offering counterfeit items bearing plaintiffs trademarks, and by purchasing certain advertising keywords. The plaintiffs seek approximately EUR 35 million in damages. In or about September 2006, Parfums Christian Dior, Kenzo Parfums, Parfums Givenchy, and Guerlain Société also filed a lawsuit in the Paris Court of Commerce against eBay Inc. and eBay International AG. The complaint alleges that we have interfered with the selective distribution network the plaintiffs set up in France and the European Union by allowing third parties to post listings offering genuine perfumes and cosmetics for sale on our sites. The plaintiffs in this suit seek approximately EUR 9 million in damages and injunctive relief. We filed our initial briefs responding to the first complaint in February 2007, and initial briefs in response to the second complaint were filed in April 2007. We believe that we have meritorious defenses to these suits and intend to defend ourselves vigorously. Other luxury brand owners have also filed suit against us or have threatened to do so.

In September 2001, MercExchange LLC filed a complaint against us, our Half.com subsidiary and ReturnBuy, Inc. in the U.S. District Court for the Eastern District of Virginia (No. 2:01-CV-736) alleging infringement of three patents (relating to online consignment auction technology, multiple database searching and electronic consignment systems) and seeking a permanent injunction and damages (including treble damages for willful infringement). Following a trial in 2003, the jury returned a verdict finding that we had willfully infringed the patents relating to multiple database searching and electronic consignment systems, and the court entered judgment for MercExchange in the amount of approximately $30 million, plus pre-judgment interest and post-judgment interest. The U.S. Court of Appeals for the Federal Circuit later reduced the award to $25.5 million. In May 2006, following appeals to the U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court, the Supreme Court remanded the case back to the district court for further action. In parallel with the federal court proceedings, at our request, the U.S. Patent and Trademark Office agreed to reexamine each of the patents in suit, finding that substantial questions existed regarding the validity of the claims contained in them. In separate actions in 2005, the Patent and Trademark Office initially rejected all of the claims contained in the three patents in suit. In March 2006, the Patent and Trademark Office reiterated its earlier ruling rejecting the claims contained in the patent that underlies the jury verdict, which relates to electronic consignment systems. We have requested that the district court stay all proceedings in the case pending the final outcome of the reexamination proceedings, and MercExchange has renewed its request that the district court grant an injunction. A hearing on these motions was held in June 2007, and we are now awaiting rulings from the court. Even if successful, our litigation of these matters will continue to be costly. As a precautionary measure, we

have modified certain functionality of our websites and business practices in a manner which we believe avoids any infringement of the consignment patent. For this reason, we believe that any injunction that might be issued by the district court will not have any impact on our business. We also believe we have appropriate reserves for this litigation. Nonetheless, if the modifications to the functionality of our websites and business practices are not sufficient to make them non-infringing, we would likely be forced to pay significant additional damages and licensing fees and/or modify our business practices in an adverse manner.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2006, Net2Phone, Inc. filed a lawsuit in the U.S. District Court for the District of New Jersey (No. 06-2469) alleging that eBay Inc., Skype Technologies S.A., and Skype Inc. infringed five patents owned by Net2Phone relating to point-to-point Internet protocol. The suit seeks an injunction against continuing infringement, unspecified damages, including treble damages for willful infringement, and interest, costs, and fees. We have filed an answer and counterclaims asserting that the patents are invalid, unenforceable, and were not infringed. The parties are in the process of conducting discovery. A claim construction hearing has been scheduled for September 2007, and we expect a trial date to be scheduled for 2008. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In August 2006, Peer Communications Corporation filed a lawsuit in the U.S. District Court for the Eastern District of Texas (No. 6-06CV-370) alleging that eBay Inc., Skype Technologies S.A., and Skype Inc. infringed two patents owned by Peer Communications relating to uniform network access. The suit seeks an injunction against continuing infringement, unspecified damages, and interest, costs, and fees. The parties are in the process of conducting discovery, and a trial date has been scheduled for October 2008. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In September 2006, Mangosoft Intellectual Property, Inc. filed a lawsuit in the U.S. District Court for the Eastern District of Texas (No. 2-06CV-390) alleging that eBay Inc., Skype Technologies S.A., and Skype Software S.a.r.l. infringed a patent owned by Mangosoft relating to dynamic directory services. The suit seeks an injunction against continuing infringement, unspecified damages, and interest, costs, and fees. We have filed an answer and counterclaims asserting that the patents are invalid, unenforceable, and not infringed. We received an initial scheduling order from the court that sets some discovery deadlines, but not a trial date. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In February 2007, our StubHub subsidiary was sued in the U.S. District Court for the Central District of California (No. CV-07-1328) in a purported class action lawsuit alleging that StubHub violated the Fair and Accurate Credit Transaction Act by allegedly printing receipts containing more than the last five digits of a credit card number or the expiration date. The complaint seeks compensatory and punitive damages and attorneys fees. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In March 2007, a plaintiff filed a purported antitrust class action lawsuit against eBay in the Western District of Texas alleging that eBay, through its wholly owned subsidiary PayPal, used illegal tie-in and steering practices to improperly monopolize the forms of payment that sellers can use on eBay. The plaintiff alleges claims under sections 1 and 2 of the Sherman Act, as well as related state law claims. The complaint seeks treble damages and an injunction. In April 2007, the plaintiff re-filed the complaint in the U.S. District Court for the Northern District of California (No. 07-CV-01882-RS), and dismissed the Texas action. In June 2007, we filed a motion to dismiss the class action complaint. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In May 2007, Netcraft Corporation filed a lawsuit in the Western District of Wisconsin (No. 07-C-0254C) alleging that eBay and PayPal infringed two of its patents entitled Internet billing methods. The suit seeks an injunction against continuing infringement, unspecified damages, and interest, costs, and fees. The parties are in the process of conducting discovery. The court has recently entered a scheduling order setting the claim construction hearing for November 2007 and the trial for June 2008. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to additional patent disputes, and expect that we will increasingly be subject to patent infringement claims as our services expand in scope and complexity. In particular, we expect that we may face additional patent infringement claims involving various aspects of our Marketplaces, Payments and Communications businesses. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are interpreted by the courts, and as we expand geographically into jurisdictions

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

where the underlying laws with respect to the potential liability of online intermediaries like ourselves are either unclear or less favorable. We believe that additional lawsuits alleging that we have violated copyright or trademark laws will be filed against us, especially in Europe. Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in our methods of doing business, or could require us to enter into costly royalty or licensing agreements.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as our business expands and our company grows larger. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

Indemnification Provisions

In the ordinary course of business we have included limited indemnification provisions in certain of our agreements with parties with whom we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In a limited number of agreements, we have provided an indemnity for other types of third-party claims, substantially all of which are indemnities related to copyrights, trademarks, and patents. In our PayPal business, we have provided an indemnity to our payment processors in the event of certain third-party claims or card association fines against the processor arising out of conduct by PayPal or PayPal s customers. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Note 7 Stock Repurchase Program

In 2006, our Board of Directors (Board) authorized a stock repurchase program for $2.0 billion of our common stock. In January 2007, our Board authorized the expansion of the stock repurchase program to provide for the repurchase of up to an additional $2.0 billion of our common stock by January 2009. The stock repurchase activity under the program, excluding broker commissions, during the first six months of 2007 is summarized as follows (in thousands, except per-share amounts):

	Shares Repurchased	Average Price per Share	Value of Shares Repurchased	Remaining Amount Authorized
Balance at January 1, 2007	54,526	$ 30.54	$ 1,665,450	$ 334,550
Additional authorization in January 2007				2,000,000
Repurchase of common stock	20,546	32.94	676,828	(676,828)

Balance at June 30, 2007	75,072	31.20	$ 2,342,278	$ 1,657,722

These repurchased shares are recorded as treasury stock and are accounted for under the cost method. No repurchased shares have been retired.

During the six-month period ended June 30, 2007, we entered into structured equity hedging transactions. According to the terms of the transactions, on the maturity date, if the market price of our common stock exceeded a pre-determined price, we had the option to settle the transaction in cash or shares of our common stock. If the market price of our common stock was below that pre-determined price, we were required to settle the transactions in shares of our common stock.

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During the three-month period ended March 31, 2007, we paid $99.6 million to enter into a structured equity hedging transaction that matured on March 30, 2007. On the maturity date, based on the market price of our stock, we chose to settle for $102.3 million in cash. The premium of approximately $2.7 million was recorded as additional paid-in capital. During the three-month period ended June 30, 2007, we paid $93.7 million to enter into a structured equity hedging transaction that matured on June 29, 2007. On the maturity date, based on the market price of our stock, we settled for approximately 3.0 million shares of our common stock at an effective per share price of $31.40.

Note 8 Stock-Based Plans

Stock-Based Compensation Expense

The impact on our results of operations of recording stock-based compensation for the three and six-month periods ended June 30, 2006 and 2007 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Cost of net revenues	$ 7,631	$ 9,638	$ 17,107	$ 18,411
Sales and marketing	27,063	23,086	51,784	42,309
Product development	22,991	19,420	43,692	35,377
General and administrative	27,723	27,477	56,643	55,474
Total stock-based compensation expense	85,408	79,621	169,226	151,571
Tax benefit	(25,088)	(24,239)	(50,539)	(45,602)
Stock-based compensation expense, net of tax	$ 60,320	$ 55,382	$ 118,687	$ 105,969

Total stock-based compensation included in capitalized development costs was $2.3 million and $2.1 million for the three-month periods ended June 30, 2006 and 2007, respectively. Total stock-based compensation included in capitalized development costs was $4.5 million and $4.2 million for the six-month periods ended June 30, 2006 and 2007, respectively.

Valuation Assumptions

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for each respective period:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007

Risk-free interest rates	4.7%	4.5%
Expected lives (in years)	3.5	3.5
Dividend yield	0%	0%
Expected volatility	35%	36%

Our computation of expected volatility is based on a combination of historical and market-based implied volatility from traded options on our common stock. Our computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

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eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

The following table summarizes stock option activity for the six months ended June 30, 2007 (in thousands):

	Shares
Outstanding at January 1, 2007	136,614
Granted and assumed	17,686
Exercised	(9,279)
Forfeited/expired/cancelled	(8,468)
Outstanding at June 30, 2007	136,553

Stock options granted under our equity incentive plans generally vest 25% one year from the date of grant (or 12.5% six months from the date of grant for existing employees) and the remainder generally vest at a rate of 2.08% per month thereafter, and generally expire seven to ten years from the date of grant. The weighted average exercise price of stock options granted and assumed during the period was $32.31 per share and the related weighted average grant date fair value was $10.34 per share.

Restricted Stock Units and Nonvested Shares

The following table summarizes restricted stock units activity for the six months ended June 30, 2007 (in thousands):

	Units
Outstanding at January 1, 2007	508
Awarded	6,861
Vested	
Forfeited	(251)
Outstanding at June 30, 2007	7,118

In general, restricted stock units vest over three to five years and are subject to the employees continuing service to the company. The cost of restricted stock units is determined using the fair value of our common stock on the date of the grant. The weighted average grant date fair value for restricted stock units awarded during the period was $32.08 per share. During the first quarter of 2007, restricted stock units were awarded as part of our annual incentive compensation review for the first time.

During the six-months ended June 30, 2007, there was no significant activity in nonvested shares.

Note 9 Income Taxes

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). As of January 1, 2007, we had $385.7 million of liabilities for unrecognized tax benefits. If recognized, the portion of liabilities for unrecognized tax benefits that would decrease our provision for income taxes and increase our net income is $279.6 million. The impact on net income reflects the liabilities for unrecognized tax benefits net of certain deferred tax assets and the federal tax benefit of state income tax items. The adoption resulted in a reclassification of certain tax liabilities from current to non-current and had no significant cumulative impact to retained earnings.

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As of June 30, 2007, our liabilities for unrecognized tax benefits were $438.1 million and are included in deferred and other tax liabilities, net. The total liabilities for unrecognized tax benefits and the increase for the current period of these liabilities relate primarily to the allocations of revenue and costs among our global operations. Over the next twelve months, our existing tax positions will continue to generate an increase in liabilities for unrecognized tax benefits. We recognize interest and/or penalties related to uncertain tax positions in income tax expense. The amount of interest and penalties accrued at June 30, 2007 was approximately $7.3 million.

We are subject to taxation in the U.S. and various states and foreign jurisdictions. We are under examination by certain tax authorities for the 2003 tax year. The material jurisdictions that are subject to examination by tax authorities for tax years after 2002 primarily include California, the U.S., Singapore and Switzerland.

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Item 2: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

FORWARD-LOOKING STATEMENTS

This report contains statements that involve expectations, plans or intentions (such as those relating to future business or financial results, new features or services, or management strategies). These statements are forward-looking and are subject to risks and uncertainties, so actual results may vary materially. You can identify these forward-looking statements by words such as may, should, expect, anticipate, believe, estimate, intend, plan and other s expressions. You should consider our forward- looking statements in light of the risks discussed under the heading Risk Factors That May Affect Results of Operations and Financial Condition below, as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statements.

You should read the following Management s Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report.

Overview

About eBay

We operate three primary business segments: Marketplaces, Payments and Communications. The Marketplaces segment enables online commerce through a variety of different platforms, including the traditional eBay auction site, our classifieds websites, our comparison shopping site, Shopping.com, our secondary tickets platform, StubHub and Rent.com. Our Payments segment, which consists of PayPal, enables individuals or businesses to securely, easily and quickly send and receive payments online. Our Communications segment, which consists of Skype, enables VoIP communications between Skype users, and also provides Skype users low-cost connectivity to traditional fixed-line and mobile telephones.

Executive Operating and Financial Summary

Our focus is on understanding our key operating and financial metrics

Members of our senior management team regularly review key operating metrics such as registered users, active users, listings, gross merchandise volume (GMV), total accounts, active accounts, total number of payments, total payment volume, and transaction rates. Members of our senior management also regularly review key financial information including net revenues, operating income margins, earnings per share, cash flows from operations and free cash flows, which we define as operating cash flows less purchases of property and equipment, net. These operating and financial measures allow us to monitor the health and vibrancy of our Marketplaces, Payments, and Communications segments and the profitability of our business and to evaluate the effectiveness of investments that we have made and continue to make in the areas of marketing, product development, international expansion, customer support and site operations. We believe that an understanding of these key operating and financial measures and how they change over time is important to investors, analysts and other parties analyzing our business results and future market opportunities.

Financial summary

Net revenues for the three-month period ended June 30, 2007 were $1.83 billion, representing a growth rate of 30% year over year. Operating income for the three-month period ended June 30, 2007 was $456.9 million, or 25% of net revenues. Net income for the three-month period ended June 30, 2007 was $375.8 million, or $0.27 earnings per diluted share. During the second quarter of 2007, we repurchased 10.3 million shares of our common stock for an aggregate purchase price of $343.7 million.

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Our expectations for growth

For the remainder of 2007, we expect that our net transaction revenues will increase as we continue to grow GMV, our non-GMV based businesses, total payment volume and Skype user activity. Additionally, we expect our advertising revenue to continue to grow. We expect to continue our investments in the areas of product development, customer support, marketing and international expansion across all segments. We believe these investments are necessary to support the long-term demands of our growing business. In addition, to the extent that the U.S. dollar fluctuates against foreign currencies, and, in particular, the Euro, British pound, Australian dollar and Korean won, the remeasurement of these foreign currency denominated transactions into U.S. dollars will impact our consolidated net revenues and, to the extent that they are not hedged, our net income.

The discussion of our consolidated financial results in this report is intended to assist those reading this report to better understand the key operating and financial measures summarized above, as well as the changes in our consolidated results of operations from year to year, and the primary factors that accounted for those changes.

Seasonality

The following table sets forth, for the periods presented, our total net revenues and the sequential quarterly growth of these net revenues.

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands, except percentages)			
2005				
Net revenues	$ 1,031,724	$ 1,086,303	$ 1,105,515	$ 1,328,859
Current quarter vs prior quarter	10%	5%	2%	20%
2006				
Net revenues	$ 1,390,419	$ 1,410,784	$ 1,448,637	$ 1,719,901
Current quarter vs prior quarter	5%	1%	3%	19%
2007				
Net revenues	$ 1,768,074	$ 1,834,429	N/A	N/A
Current quarter vs prior quarter	3%	4%		

We expect transaction activity patterns on our websites to increasingly mirror general consumer buying patterns, both online and offline, as our business expands, with the strongest sequential growth occurring in the fourth quarter.

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Results of Operations

The following table sets forth, for the periods presented, the breakdown of net revenues by type, segment and geography. In addition, we have provided a table of key operating metrics that we believe are significant factors affecting our net revenues.

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percent changes)					
Net Revenues by Type:						
Net transaction revenues						
Marketplaces	$ 997,121	$ 1,236,835	24%	$ 1,987,648	$ 2,448,380	23%
Payments	330,684	432,294	31%	658,834	851,286	29%
Communications	44,158	89,133	102%	79,318	166,211	110%
Total net transaction revenues	1,371,963	1,758,262	28%	2,725,800	3,465,877	27%
Advertising and other net revenues	38,821	76,167	96%	75,403	136,626	81%
Total net revenues	$ 1,410,784	$ 1,834,429	30%	$ 2,801,203	$ 3,602,503	29%
Net Revenues by Segment:						
Marketplaces	$ 1,027,535	$ 1,290,552	26%	$ 2,047,728	$ 2,540,752	24%
Payments	339,091	454,167	34%	674,157	893,508	33%
Communications	44,158	89,710	103%	79,318	168,243	112%
Total net revenues	$ 1,410,784	$ 1,834,429	30%	$ 2,801,203	$ 3,602,503	29%
Net Revenues by Geography:						
U.S.	$ 724,699	$ 895,820	24%	$ 1,472,835	$ 1,780,729	21%
International	686,085	938,609	37%	1,328,368	1,821,774	37%
Total net revenues	$ 1,410,784	$ 1,834,429	30%	$ 2,801,203	$ 3,602,503	29%

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percent changes)					
Supplemental Operating Data:						
Marketplaces Segment(1):						
Confirmed registered users(2)	202.7	241.0	19%	202.7	241.0	19%
Active users(3)	77.7	83.3	7%	77.7	83.3	7%

Number of listings(4)	596.0	559.1	(6)%	1,171.4	1,147.5	(2)%
GMV(5)	$ 12,896	$ 14,464	12%	$ 25,400	$ 28,745	13%
Payments Segment:						
Total accounts(6)	113.7	153.1	35%	113.7	153.1	35%
Active accounts(7)	29.5	35.9	22%	29.5	35.9	22%
Number of payments(8)	143.3	172.9	21%	292.5	349.9	20%
Total payment volume(9)	$ 8,856	$ 11,691	32%	$ 17,625	$ 23,050	31%
Communications Segment:						
Registered users(10)	113.1	219.6	94%	113.1	219.6	94%

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(1) Rent.com, Shopping.com, and our classifieds websites are not included in these metrics.

(2) Cumulative total of all users who have completed the registration process on one of eBay Marketplaces trading platforms. Users may register more than once, and as a result, may have more than one account.

(3) All users, excluding users of Half.com, StubHub and Internet Auction, who bid on, bought, or listed an item within the previous 12-month period. Users may register more than once, and as a result, may have more than one account.

(4) Listings on eBay Marketplaces trading platforms during the period, regardless of whether the listing subsequently closed successfully.

(5) Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction.

(6) Cumulative total of all accounts opened, including users who made payments using PayPal but have not registered, excluding accounts that have been closed or locked and the payment gateway business accounts. Users may register more than once, and as a result, may have more than one account.

(7) All accounts, and users whether registered or not, that sent or received at least one payment through the PayPal system during the period. Users may register more than once, and as a result, may have more than one account.

(8) Total number of payments initiated through the PayPal system during the period, excluding the payment gateway business, regardless of whether the payment was actually sent successfully, or was reversed, rejected, or pending at the end of the period.

(9) Total dollar volume of payments initiated through the PayPal system during the period, excluding the payment gateway business, regardless of whether the payment was actually sent successfully, or was reversed, rejected, or was pending at the end of the period.

(10) Cumulative number of user accounts created on Skype as of the end of the period. Users may register more than once, and as a result, may have more than one account.

Our net transaction revenues from our Marketplaces segment are derived primarily from listing, feature and final value fees paid by sellers and lead referral fees. For our Payments segment, net transaction revenues are generated primarily by fees from payment processing services. Our Communications segment primarily generates net transaction revenues from fees charged to users to connect Skype s VoIP product to traditional telecommunication networks. These fees are charged on a per minute basis or on a subscription basis and we refer to these minutes as SkypeOut minutes. Net revenues from advertising are derived principally from the sale of advertisements and from revenue sharing arrangements. Other net revenues are derived principally from contractual arrangements with third parties that provide transaction services to eBay and PayPal users and interest earned from banks on certain PayPal customer account balances.

Net revenues are attributed to U.S. and International geographies based upon the country in which the seller, payment recipient, Skype user s Internet protocol address, online property that generates advertising, or other service provider is located.

Marketplaces Net Transaction Revenues

Total net transaction revenues from Marketplaces increased 24% and 23% during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year. The increase in net transaction revenues was the result of growth in GMV, growth in our non-GMV based businesses (Shopping.com, Rent.com and our classifieds websites) and pricing changes made over the last twelve months. Our non-GMV based businesses are growing faster than the overall Marketplaces businesses.

GMV increased 12% and 13% during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year. Although the number of listings declined during the second quarter and the first six months of 2007 compared to the same periods in prior year, GMV growth was primarily driven by an increase in conversion rates, average selling prices and a weaker U.S. dollar. GMV growth occurred across all major categories, with the motors, consumer electronics, clothing, home, sports, tickets and business categories having the most significant dollar impact.

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Marketplaces net transaction revenues earned internationally were $646.1 million and $1.3 billion during the second quarter and the first six months of 2007, respectively, representing 52% of total Marketplaces net transaction revenues in both periods. Marketplaces net transaction revenues earned internationally were $506.7 million and $989.9 million during the second quarter and the first six months of 2006, respectively, representing 51% and 50% of total Marketplaces net transaction revenues, respectively. Based on changes in foreign currency rates year over year, Marketplaces net revenues were positively impacted by foreign currency translation of approximately $43.4 million and $93.7 million during the second quarter and the first six months of 2007, respectively. Changes in foreign currency rates will impact our operating results and, to the extent that the U.S. dollar strengthens, our foreign currency denominated net revenues will be negatively impacted.

For the remainder of 2007, we expect Marketplaces net transaction revenues to increase as GMV increases, along with continued growth from our non-GMV based businesses.

Payments Net Transaction Revenues

Payments net transaction revenues increased 31% and 29% during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year. The increase in net transaction revenue is consistent with our 32% and 31% growth in total payment volume during the second quarter and first six months of 2007, respectively, compared to the same periods of the prior year. Payments net transaction revenues are still primarily derived from PayPal s penetration of eBay Marketplaces transactions. Payments net transaction revenues have grown in connection with the increase in our eBay Marketplaces GMV during the second quarter and first six months of 2007 as compared to the same periods of the prior year.

In addition, net transaction revenue growth was due to a 57% and 54% increase in total payment volume in PayPal s merchant services transactions during the second quarter and first six months of 2007, respectively, compared to the same period of the prior year. The increase in merchant services business is due to more online merchants, both domestically and internationally, adding PayPal as a payment option. The total payment volume for PayPal s merchant services transactions was approximately $4.9 billion and $9.3 billion in the second quarter and the first six months of 2007, respectively, which represented 42% and 40% of PayPal s total payment volume, respectively. The total payment volume for PayPal s merchant services transactions was approximately $3.1 billion and $6.0 billion in the second quarter and the first six months of 2006, which represented 35% and 34% of PayPal s total payment volume, respectively. Our Payments net transaction revenues as a percentage of total payment volume was 3.7% during the second quarter and the first six months of 2007 and 2006.

Payments net transaction revenues earned internationally were $181.1 million and $352.4 million during the second quarter and the first six months of 2007, respectively, representing 42% and 41% of total Payments net transaction revenues during those periods. This is compared to Payments net transaction revenues earned internationally of $125.2 million and $243.8 million during the second quarter and the first six months of 2006, respectively, representing 38% and 37% of total Payments net transaction revenues during those periods. Growth in the international business continues to benefit from our expansion of our geographical footprint and expansion in the number of currencies supported by PayPal over the last twelve months. Based on changes in foreign currency rates year over year, Payments net revenues were positively impacted by foreign currency translation of approximately $8.8 million and $18.8 million during the second quarter and the first six months of 2007, respectively. Changes in foreign currency rates will impact our operating results and, to the extent that the U.S. dollar strengthens, our foreign currency denominated net revenues will be negatively impacted.

For the remainder of 2007, we expect Payments net transaction revenues to increase in total and net transaction revenues earned internationally to increase in total and as a percentage of Payments net transaction revenues. We expect to grow our merchant services business as the number of merchants integrating PayPal on their websites

increases and we build consumer preference for PayPal. In addition, we expect to benefit from growth in Marketplaces GMV.

Communications Net Transaction Revenues

Communications net transaction revenues increased 102% and 110% during the second quarter and the first six months of 2007 compared to the same periods of the prior year. The increase in net revenues was primarily due to an

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increase in SkypeOut minutes to 1.3 billion during the second quarter of 2007, compared to 849 million in the same period of the prior year. SkypeOut minutes increased to 2.6 billion in the first six months of 2007, compared to 1.5 billion in the same period of the prior year. The increase in SkypeOut minutes was due primarily to the growth in the cumulative number of Skype registered users to 219.6 million at June 30, 2007 from 113.1 million at June 30, 2006. Prior period SkypeOut minutes have been adjusted to exclude non-revenue generating minutes. The growth in Skype s user activity has slowed somewhat as Skype has increased its focus on monetization of users.

Communications net transaction revenues earned internationally were $75.7 million and $141.2 million in the second quarter and the first six months of 2007, respectively, representing 85% of total Communications net transaction revenues during both periods. Communications net transaction revenues earned internationally were $37.8 million and $68.1 million in the second quarter and the first six months of 2006, respectively, representing 86% of total Communications net transaction revenues during both periods. Based on changes in foreign currency rates year over year, Communications net revenues were positively impacted by foreign currency translation of approximately $6.1 million and $12.6 million during the second quarter and the first six months of 2007. Changes in foreign currency rates will impact our operating results and, to the extent that the U.S. dollar strengthens, our foreign currency denominated net revenues will be negatively impacted.

For the remainder of 2007, we expect an increase in total Communications net transaction revenues and we expect to continue our focus on increasing user activity and expanding our product and feature-set.

Advertising and Other Net Revenues

Advertising and other net revenues represented 4% of total net revenues during the second quarter and the first six months of 2007 and 2006. Advertising and other net revenues increased 96% and 81% during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year due to Marketplaces advertising initiatives and interest earned from banks on certain U.S. PayPal customer account balances. Prior to the fourth quarter of 2006, certain U.S. PayPal customer account balances were maintained in non-interest bearing accounts. As we continue to view our business as primarily transaction-revenue driven, we expect advertising and other net revenues to continue to represent a relatively small proportion of total net revenues during the remainder of 2007. We expect advertising and other net revenues to increase in total as we continue to benefit from the significant number of users on our Marketplaces platforms.

Cost of Net Revenues

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					
Cost of net revenues	$ 296,883	$ 416,789	40%	$ 580,480	$ 810,478	40%
As a percentage of net revenues	21.0%	22.7%		20.7%	22.5%	

Cost of net revenues consists primarily of costs associated with payment processing, customer support and site operations, and Skype telecommunications costs. Significant cost components include bank transaction fees, credit card interchange, assessments, other payment processing costs, employee compensation, contractor costs, facilities costs for our customer support and site operations, depreciation of equipment, amortization of capitalized product development costs and amortization of acquired developed technology.

The increase in cost of net revenues during the second quarter and the first six months of 2007, compared to the same periods in the prior year, was primarily due to an increase in payment processing costs, Skype telecommunications costs, and customer support and site operations costs as we continue to grow our lower margin segments, Payments and Communications. Payment processing costs increased $60.0 million and $109.3 million during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year. Payment processing costs are driven by higher Marketplaces transaction activity and an increase in PayPal total payment volume. Skype telecommunications costs increased $20.5 million and $42.2 million during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year, primarily due to an increase in SkypeOut minutes. Aggregate customer support and site operations costs increased

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approximately $38.1 million and $77.3 million during the second quarter and the first six months of 2007, respectively, compared to the same periods of the prior year due to the development and expansion of our customer support and site operations infrastructure. Cost of net revenues has increased as a percentage of net revenues during the second quarter and first six months of 2007 as a result of the growth of our lower gross margin businesses, PayPal and Skype.

For the remainder of 2007, cost of net revenues is expected to increase in total and as a percentage of net revenues primarily due to growth in our Payments and Communications segments, each of which is growing faster and has a lower gross margin than our Marketplaces segment.

Sales and Marketing

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					
Sales and marketing	$ 384,347	$ 477,768	24%	$ 773,031	$ 921,020	19%
As a percentage of net revenues	27.2%	26.0%		27.6%	25.6%	

Sales and marketing expenses consist primarily of advertising costs, marketing programs, contractor costs and employee compensation for sales and marketing staff.

The increase in sales and marketing expenses in the second quarter and the first six months of 2007 of $93.4 million and $148.0 million, respectively, compared to the same periods in the prior year was primarily due to our continued investment in growing and retaining our active user base. We direct customers to our websites primarily through a number of online marketing channels such as sponsored search, portal advertising, e-mail campaigns and other initiatives. Our marketing expenses are largely variable, based on growth in sales and change in rates. Combined advertising and marketing costs increased $82.3 million and $127.4 million in the second quarter and first six months of 2007, respectively, compared to same periods in the prior year. Employee related costs, including the use of contractors, increased $6.1 million and $15.2 million in the second quarter and first six months of 2007, respectively, compared to the same periods in the prior year due to an increase in staffing.

For the remainder of 2007, sales and marketing expenses are expected to increase in total due to an expected increase in our marketing expenses to attract new customers and increase user activity across all of our segments. Sales and marketing expenses as a percentage of net revenues are expected to slightly decrease due to improved sales and marketing expense leverage in our Marketplaces segment and the growth in our Payments and Communications segments, each of which generally has lower relative sales and marketing expenses as a percentage of net revenues than our Marketplaces segment.

Product Development

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					

Product development	$ 123,972	$ 147,934	19%	$ 243,042	$ 285,532	17%
As a percentage of net revenues	8.8%	8.1%		8.7%	7.9%	

Product development expenses consist primarily of employee compensation, contractor costs, facilities costs and depreciation on equipment. Product development expenses are net of required capitalization of major site and other product development efforts, including the development of our next generation platform architecture, migration of certain platforms, seller tools and Payment-services projects. Capitalized site and product development costs were $21.4 million and $38.9 million in the second quarter and the first six months of 2007, respectively, and $17.4 million and $35.4 million in the second quarter and the first six months of 2006, respectively. Capitalized site and product development costs are reflected as a cost of net revenues when amortized in future periods.

The increase in product development expenses in the second quarter and the first six months of 2007 of $24.0 million and $42.5 million, respectively, compared to the same periods in the prior year, was primarily due to

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an increase in staffing and contractor costs to support several platform development initiatives to enhance the user experience and expand our existing product offerings.

For the remainder of 2007, product development expenses are expected to increase in total and remain consistent as a percentage of net revenues, as we develop new site features and functionality and continue to improve and expand operations across all businesses while leveraging our expenses.

General and Administrative

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					
General and administrative	$ 236,576	$ 283,478	20%	$ 466,128	$ 561,837	21%
As a percentage of net revenues	16.8%	15.5%		16.6%	15.6%	

General and administrative expenses consist primarily of employee compensation, contractor costs, provisions for transaction losses associated with PayPal, facilities costs, depreciation of equipment, provision for doubtful accounts, payroll taxes on employee stock options, insurance and professional fees.

The increase in general and administrative expenses in the second quarter and the first six months of 2007 of $46.9 million and $95.7 million, respectively, compared to the same periods of the prior year, was primarily due to the provision for transaction losses associated with PayPal, employee related costs, facilities costs and professional services. PayPal s payment transaction loss rate, which is the transaction loss expense as a percentage of PayPal s total payment volume, increased to 0.29% and 0.30% during the second quarter and the first six months of 2007, respectively, compared to 0.27% and 0.28% during the second quarter and the first six months of 2006, respectively. Our transaction loss rate can fluctuate widely depending on many factors, such as historical experience of losses, funding mix and total payment volume. The funding mix reflects how senders fund their payment transactions (credit cards, electronic funds transfers, or existing PayPal account balances). Transaction loss expense increased $9.6 million and $19.9 million during the second quarter and the first six months of 2007, respectively, compared to the same periods in the prior year. Employee related costs and facilities costs increased $26.1 million and $51.5 million during the second quarter and the first six months of 2007, respectively, compared to the same periods in the prior year due to an increase in staff. Professional services costs increased $8.5 million and $11.5 million during the second quarter and the first six months of 2007, respectively, compared to the same periods in the prior year.

For the remainder of 2007, we expect general and administrative expenses to increase due to our continued investment across all areas of our business and related corporate functions, particularly in our consumer protection programs. General and administrative expenses are expected to decrease as a percentage of net revenues due to leverage in our traditional general and administrative functions, which we expect will be partially offset by investments in our consumer protection programs.

Amortization of Acquired Intangible Assets

	Three Months Ended			Six Months Ended		
	June 30,	June 30,	Percent	June 30,	June 30,	Percent

	2006	2007	Change	2006	2007	Change
	(In thousands, except percentages)					
Amortization of acquired intangible assets	$ 57,592	$ 51,554	(10)%	$ 104,484	$ 98,903	(5)%
As a percentage of net revenues	4.1%	2.8%		3.7%	2.7%	

From time to time we have purchased, and we expect to continue to purchase, assets or businesses to accelerate category and geographic expansion, increase the features, functions, and formats available to our users and maintain a leading role in e-commerce, payments and communications. These purchase transactions generally result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in the amortization expense in future periods. We amortize intangible assets over the period of estimated benefit, using the straight-line method and estimated useful lives ranging from one to eight years. The slight decrease in amortization of acquired

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intangibles is due to a $10.4 million charge for in-process research and development taken in the second quarter of 2006 related to an acquisition completed during that period.

Amortization of acquired intangible assets may increase should we make additional acquisitions in the future.

Interest and Other Income, Net

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					
Interest and other income, net	$ 25,629	$ 33,967	33%	$ 51,388	$ 63,987	25%
As a percentage of net revenues	1.8%	1.9%		1.8%	1.8%	

Interest and other income, net, consists of interest earned on cash, cash equivalents and investments as well as foreign exchange transaction gains and losses, our portion of unconsolidated joint venture results and other miscellaneous transactions not related to our primary operations.

Our interest and other income, net, increased during the second quarter and the first six months of 2007 as compared to the same periods of the prior year, due to higher cash, cash equivalents and investments balances. The weighted-average interest rate of our portfolio was approximately 4.2% and 4.0% in the second quarter and the first six months of 2007, respectively, compared to 3.7% and 3.6% in the second quarter and the first six months of the prior year, respectively.

For the remainder of 2007, interest and other income, net, will vary primarily based on future interest rates and the level of invested assets, and our portion of the results of investments in unconsolidated entities.

Interest Expense

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					
Interest expense	$ 929	$ 2,734	194%	$ 1,676	$ 7,276	334%
As a percentage of net revenues	0.1%	0.1%		0.1%	0.2%	

Interest expense consists of interest charges on the amount drawn under our line of credit and certain accrued contingencies. The increase in interest expense in the second quarter and the first six months of 2007, compared to the same period of the prior year, is primarily due to interest charges associated with our line of credit and certain accrued contingencies. During the three months ended June 30, 2007, we borrowed and repaid $200 million under our line of credit. During the six months ended June 30, 2007, we borrowed and repaid $360 million under our line of credit.

Provision for Income Taxes

	Three Months Ended			Six Months Ended		
	June 30, 2006	June 30, 2007	Percent Change	June 30, 2006	June 30, 2007	Percent Change
	(In thousands, except percentages)					
Provision for income taxes	$ 86,120	$ 112,315	30%	$ 185,474	$ 228,444	23%
As a percentage of net revenues	6.1%	6.1%		6.6%	6.3%	
Effective tax rate	26%	23%		27%	23%	

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal rate principally due to foreign income with lower tax rates and from tax credits that lower the effective tax rate offset by state taxes, subsidiary losses for which we have not provided a benefit and other factors that increase the effective tax rate.

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The lower effective tax rates for the second quarter and the first six months of 2007, compared to the same periods of 2006, resulted primarily from expansion of our international operations and favorable changes in our income mix among international tax jurisdictions. For the remainder of 2007, we expect our effective tax rate to be lower compared to 2006.

Foreign Exchange Hedging Policy

We are a growing company, with an increasing proportion of our operations outside the U.S. Accordingly, our foreign currency exposures have increased substantially and are expected to continue to grow. The objective of our foreign exchange exposure management program is to identify material foreign currency exposures and to manage these exposures to minimize the potential effects of currency fluctuations on our reported cash flow and results of operations.

Our primary foreign currency exposures are transaction, economic and translation:

Transaction Exposure: Around the world, we have certain assets and liabilities, primarily receivables, investments and accounts payable (including inter-company transactions), that are denominated in currencies other than the relevant entity s functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our reported consolidated financial position, results of operations and cash flows. We may enter into foreign exchange contracts to minimize the short-term foreign currency fluctuations on such assets and liabilities. The gains and losses on the foreign exchange contracts offset the transaction gains and losses on certain foreign currency receivables, investments and payables, all of which are recognized in interest and other income, net.

Economic Exposure: We also have anticipated future cash flows, including revenues and expenses, denominated in currencies other than the relevant entity s functional currency. Our primary economic exposures include future royalty receivables, customer fees, and vendor payments. Changes in the relevant entity s functional currency value will cause fluctuations in the cash flows we expect to receive when these cash flows are realized or settled. We may enter into foreign exchange contracts to hedge the value of a portion of these cash flows. We account for these foreign exchange contracts as cash flow hedges. The effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the transaction is settled.

Earnings Translation Exposure: As our international operations grow, fluctuations in the foreign currencies create volatility in our reported results of operations because we are required to consolidate the results of operations of our foreign denominated subsidiaries. We may decide to purchase foreign exchange contracts to offset the earnings impact of currency fluctuations. Such contracts will be marked-to-market on a monthly basis and any unrealized gain or loss will be recorded in interest and other income, net.

Liquidity and Capital Resources

Cash Flows

	Six Months Ended June 30,	
	2006	2007
	(In thousands)	
Net cash provided by (used in):		

Operating activities	$ 1,099,717	$ 1,219,077
Investing activities	(58,823)	(59,700)
Financing activities	235,974	(460,646)
Effect of exchange rates on cash and cash equivalents	43,933	56,826
Net increase in cash and cash equivalents	$ 1,320,801	$ 755,557

We generated cash from operating activities in amounts greater than net income in the six months ended June 30, 2006 and 2007, mainly due to non-cash charges to earnings and tax benefits from stock-based

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compensation. Non-cash charges to earnings included depreciation and amortization on our long-term assets, stock-based compensation, provision for doubtful accounts and authorized credits resulting from increasing revenues and the provision for transaction losses resulting from increased total payment volumes processed by our PayPal subsidiary. As a substantial portion of the company s net operating losses and tax credits have now been utilized, cash is now required for tax payments in the U.S. For the remainder of 2007, total U.S. and foreign income tax payments will be dependent on our taxable income and are estimated to be in the range of $175 to $225 million. For the remainder of 2007, we expect net cash provided by operating activities to increase primarily from higher net income.

Net cash used in investing activities during the first six months of 2007 consisted primarily of cash paid to acquire businesses totaling $320.2 million, the purchase of computer equipment and software to support our site operations, customer support and international expansion for $206.7 million, offset by net cash provided by our investment activity of $465.1 million. Net cash used in investing activities of $58.8 million during the first six months of 2006 consisted primarily of the cash payment for computer equipment and software to support our site operations, customer support and international expansion. For the remainder of 2007, we expect to continue to purchase property and equipment and we may acquire other businesses for cash, which would reduce investing cash flows or increase investing cash usage.

The net cash flows used in financing activities during the first six months of 2007 was primarily due to the repurchase of approximately 20.5 million shares of common stock for an aggregate purchase price of approximately $674.9 million, offset by proceeds from the issuance of common stock under our employee stock purchase plan and the exercise of stock options of $184.4 million and the excess tax benefits from stock-based compensation of $29.8 million. Net cash provided by financing activities of $236.0 million during the first six months of 2006 was due to proceeds from the issuance of common stock under our employee stock purchase plan and exercise of stock options of $175.0 million and the excess tax benefits from stock-based compensation of $61.0 million. For the remainder of 2007, we may continue to repurchase common stock, which would reduce financing cash flows or increase financing cash usage.

The positive effect of exchange rates on cash and cash equivalents during the six months ended June 30, 2007 and 2006 was due to the weakness of the U.S. dollar during the respective periods against other foreign currencies, primarily the Euro.

Stock Repurchases

In July 2006, our Board authorized the repurchase of up to $2.0 billion of our common stock within two years from the date of authorization. In January 2007, our Board authorized an expansion of the stock repurchase program to provide for the repurchase of up to an additional $2.0 billion of our common stock over the next two years. During the six-month period ended June 30, 2007, we repurchased $0.7 billion of our common stock. As of June 30, 2007, we have repurchased approximately $2.3 billion of our common stock and we may repurchase up to an additional $1.7 billion of our common stock through January 2009.

Off-Balance Sheet Arrangements

As of June 30, 2007, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources. All customer funds held by PayPal as an agent or custodian on behalf of our customers are not reflected in our consolidated balance sheets. These funds include funds held on behalf of U.S. customers that are deposited in bank accounts insured by the Federal Deposit Insurance Corporation and funds that U.S. customers choose to invest in PayPal s Money Market Fund totaling approximately $1.7 billion and $1.5 billion as of June 30, 2007 and December 31, 2006, respectively.

Indemnification Provisions

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with whom we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold

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harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In a limited number of agreements, we have provided an indemnity for other types of third-party claims, substantially all of which are indemnities related to copyrights, trademarks, and patents. In our PayPal business, we have provided an indemnity to our payment processors in the event of certain third-party claims or card association fines against the processor arising out of conduct by PayPal or PayPal s customers. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Liquidity and Capital Resource Requirements

We believe that existing cash, cash equivalents and investments of approximately $3.8 billion, together with cash generated from operations and borrowings under our credit facility, will be sufficient to fund our operating activities, capital expenditures, stock repurchases and other obligations for the foreseeable future.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a framework for measuring fai value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We will be required to adopt the provisions on FAS 157 on January 1, 2008. We are currently evaluating the impact of adopting the provisions of FAS 157 but we do not believe that the adoption of FAS 157 will materially impact our financial position, cash flows, or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

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

Interest Rate Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of securities, including government and corporate securities and money market funds. These securities are generally classified as available for sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of estimated tax.

Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate securities may be adversely impacted due to a rise in interest rates. In general, securities with longer maturities are subject to greater interest-rate risk than those with shorter maturities. While floating rate securities generally are subject to less interest-rate risk than fixed-rate securities, floating-rate securities

may produce less income than expected if interest rates decrease. Due in part to these factors, our investment income may fall short of expectations or we may suffer losses in principal if securities are sold that have declined in market value due to changes in interest rates. As of June 30, 2007, our fixed-income investments earned a pretax yield of approximately 5.2%, with a weighted average maturity of one month. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our total investment portfolio could decrease (increase) by approximately $0.5 million.

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Equity Price Risk

We are exposed to equity price risk on the marketable portion of equity instruments and equity method investments we hold, typically as the result of strategic investments in third parties that are subject to considerable market risk due to their volatility. We typically do not attempt to reduce or eliminate our market exposure in these equity investments. We did not record an impairment charge during either of the three and six months ended June 30, 2006 or 2007 relating to the other-than-temporary impairment in the fair value of equity investments. At June 30, 2007, the total carrying value of our equity instruments and equity method investments, included in long-term investments, was $113.0 million.

Foreign Currency Risk

During the second quarter and the fist six months of 2007, our international net revenues, based upon the country in which the seller, payment recipient, advertiser or other service provider is located, accounted for approximately 51% of our net revenues, an increase from 49% and 47% of net revenues for the same periods of 2006. The growth in our international operations has increased our exposure to foreign currency fluctuations. Net revenues and related expenses generated from international locations are denominated in the functional currencies of the local countries, and primarily include Euros, British pounds, Korean won, Canadian dollars, Taiwanese dollars, Australian dollars, Chinese renminbi, and Indian rupee. The results of operations and certain of our inter-company balances associated with our international locations are exposed to foreign exchange rate fluctuations. The statements of income of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased consolidated net revenues, operating expenses and net income. We expect our international operations will continue to grow in significance as we develop and deploy our global marketplaces and global payments platform. As a result, the impact of foreign currency fluctuations in future periods could become more significant and may have a negative impact on our consolidated net revenues and net income in the event the U.S. dollar strengthens relative to other currencies.

If the U.S. dollar weakens against foreign currencies, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income. Similarly, our net revenues, operating expenses, and net income will decrease if the U.S. dollar strengthens against foreign currencies. The change in weighted average foreign currency exchange rates in the second quarter of 2007 as compared to the same period in the prior year resulted in higher net revenues of approximately $58.3 million and higher aggregate cost of revenues and operating expenses of approximately $26.8 million. The change in weighted average foreign currency exchange rates in the first six months of 2007 as compared to the same period in the prior year resulted in higher net revenues of approximately $125.2 million and higher aggregate cost of revenues and operating expenses of approximately $52.8 million. In addition, at June 30, 2007, we held balances in cash, cash equivalents and investments outside the U.S. totaling approximately $3.1 billion.

Furthermore, our international operations are subject to risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Transaction Exposure

As of June 30, 2007, we had outstanding foreign exchange hedge contracts with notional values equivalent to approximately $131.8 million with maturity dates within 31 days. The hedge contracts are used to offset changes in the functional currency value of assets and liabilities denominated in foreign currencies as a result of currency

fluctuations. Transaction gains and losses on the contracts and the assets and liabilities are recognized each period in our consolidated statement of income.

Translation Exposure

Foreign exchange rate fluctuations may adversely impact our financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our consolidated balance sheet. The effect of

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foreign exchange rate fluctuations on our consolidated financial position for the six months ended June 30, 2007, was a net translation gain of approximately $163.2 million. This gain is recognized as an adjustment to stockholders equity through accumulated other comprehensive income. Additionally, foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our consolidated statement of income.

We consolidate the earnings of our international subsidiaries by converting them into U.S. dollars in accordance with SFAS No. 52 Foreign Currency Translation (FAS 52). Such earnings will fluctuate when there is a change in foreign currency exchange rates. We enter into transactions to hedge portions of our foreign currency denominated earnings translation exposure using foreign exchange contracts. All contracts that hedge translation exposure mature ratably over the quarter in which they are executed. During the three months ended June 30, 2007, the realized gains and losses related to these hedges were not significant.

Economic Exposure

We enter into various intercompany arrangements primarily denominated in Euros and British pounds. To reduce foreign exchange risk related to these inter-company arrangements for fiscal 2007, we entered into foreign exchange contracts during the three and six months ended June 30, 2007. The objective of the foreign exchange contracts is to ensure that the U.S. dollar-equivalent cash flows are not adversely affected by changes in the Euro/U.S. dollar and the British pound/U.S. dollar exchange rates. Pursuant to SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133), we expect the hedge of certain of these forecasted transactions using the foreign exchange contracts to be highly effective in offsetting potential changes in cash flows attributed to a change in the Euro/U.S. dollar and the British pound/U.S. dollar exchange rates. During the three and six months ended June 30, 2006 and 2007, the realized gains and losses related to these hedges were not significant. The notional amount of our hedges receiving cash flow hedge accounting treatment was $241.4 million and the net loss related to these hedges recorded to accumulated other comprehensive income as of June 30, 2007 was not significant.

Item 4: ***Controls and Procedures***

(a) *Evaluation of disclosure controls and procedures.* Based on the evaluation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) *Changes in internal controls.* There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1: ***Legal Proceedings***

In April 2001, two of our European subsidiaries, eBay GmbH and eBay International AG, were sued by Montres Rolex S.A. and certain of its affiliates in the regional court of Cologne, Germany. The suit subsequently was transferred to the regional court in Düsseldorf, Germany. Rolex alleged that our subsidiaries were infringing Rolex s trademarks as a result of users selling counterfeit Rolex watches through our German website. The suit also alleged unfair competition. Rolex sought an order enjoining the sale of Rolex-branded watches on the website as well as

damages. In December 2002, a trial was held in the matter, and the court ruled in favor of eBay on all causes of action. Rolex appealed the ruling to the Higher Regional Court of Düsseldorf, and the appeal was heard in October 2003. In February 2004, the court rejected Rolex s appeal and ruled in our favor. Rolex appealed the ruling to the German Federal Supreme Court, a hearing took place before that court in December 2006, and a written decision was issued in June 2007. The court s decision found that eBay must take reasonable measures to prevent

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recurrence once it is informed of clearly identified infringement, and that eBay may in certain circumstances be liable upon first notice of infringement. The court referred the case back to the Higher Regional Court to determine whether, in some circumstances, a low starting listing price was sufficient to indicate that a listing was infringing. We expect that this ruling will likely result in increased litigation against us in Germany although we do not currently believe that it will require a significant change in our business practices.

In August 2006, Louis Vuitton Malletier and Christian Dior Couture filed two lawsuits in the Paris Court of Commerce against eBay Inc. and eBay International AG. The complaint alleges that we violated French tort law by negligently broadcasting listings posted by third parties offering counterfeit items bearing plaintiffs trademarks, and by purchasing certain advertising keywords. The plaintiffs seek approximately EUR 35 million in damages. In or about September 2006, Parfums Christian Dior, Kenzo Parfums, Parfums Givenchy, and Guerlain Société also filed a lawsuit in the Paris Court of Commerce against eBay Inc. and eBay International AG. The complaint alleges that we have interfered with the selective distribution network the plaintiffs set up in France and the European Union by allowing third parties to post listings offering genuine perfumes and cosmetics for sale on our sites. The plaintiffs in this suit seek approximately EUR 9 million in damages and injunctive relief. We filed our initial briefs responding to the first complaint in February 2007, and initial briefs in response to the second complaint were filed in April 2007. We believe that we have meritorious defenses to these suits and intend to defend ourselves vigorously. Other luxury brand owners have also filed suit against us or have threatened to do so.

In September 2001, MercExchange LLC filed a complaint against us, our Half.com subsidiary and ReturnBuy, Inc. in the U.S. District Court for the Eastern District of Virginia (No. 2:01-CV-736) alleging infringement of three patents (relating to online consignment auction technology, multiple database searching and electronic consignment systems) and seeking a permanent injunction and damages (including treble damages for willful infringement). Following a trial in 2003, the jury returned a verdict finding that we had willfully infringed the patents relating to multiple database searching and electronic consignment systems, and the court entered judgment for MercExchange in the amount of approximately $30 million, plus pre-judgment interest and post-judgment interest. The U.S. Court of Appeals for the Federal Circuit later reduced the award to $25.5 million. In May 2006, following appeals to the U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court, the Supreme Court remanded the case back to the district court for further action. In parallel with the federal court proceedings, at our request, the U.S. Patent and Trademark Office agreed to reexamine each of the patents in suit, finding that substantial questions existed regarding the validity of the claims contained in them. In separate actions in 2005, the Patent and Trademark Office initially rejected all of the claims contained in the three patents in suit. In March 2006, the Patent and Trademark Office reiterated its earlier ruling rejecting the claims contained in the patent that underlies the jury verdict, which relates to electronic consignment systems. We have requested that the district court stay all proceedings in the case pending the final outcome of the reexamination proceedings, and MercExchange has renewed its request that the district court grant an injunction. A hearing on these motions was held in June 2007, and we are now awaiting rulings from the court. Even if successful, our litigation of these matters will continue to be costly. As a precautionary measure, we have modified certain functionality of our websites and business practices in a manner which we believe avoids any infringement of the consignment patent. For this reason, we believe that any injunction that might be issued by the district court will not have any impact on our business. We also believe we have appropriate reserves for this litigation. Nonetheless, if the modifications to the functionality of our websites and business practices are not sufficient to make them non-infringing, we would likely be forced to pay significant additional damages and licensing fees and/or modify our business practices in an adverse manner.

In June 2006, Net2Phone, Inc. filed a lawsuit in the U.S. District Court for the District of New Jersey (No. 06-2469) alleging that eBay Inc., Skype Technologies S.A., and Skype Inc. infringed five patents owned by Net2Phone relating to point-to-point Internet protocol. The suit seeks an injunction against continuing infringement, unspecified damages, including treble damages for willful infringement, and interest, costs, and fees. We have filed an answer and counterclaims asserting that the patents are invalid, unenforceable, and were not infringed. The parties are in the

process of conducting discovery. A claim construction hearing has been scheduled for September 2007, and we expect a trial date to be scheduled for 2008. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In August 2006, Peer Communications Corporation filed a lawsuit in the U.S. District Court for the Eastern District of Texas (No. 6-06CV-370) alleging that eBay Inc., Skype Technologies S.A., and Skype Inc. infringed two patents owned by Peer Communications relating to uniform network access. The suit seeks an injunction against

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continuing infringement, unspecified damages, and interest, costs, and fees. The parties are in the process of conducting discovery, and a trial date has been scheduled for October 2008. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In September 2006, Mangosoft Intellectual Property, Inc. filed a lawsuit in the U.S. District Court for the Eastern District of Texas (No. 2-06CV-390) alleging that eBay Inc., Skype Technologies S.A., and Skype Software S.a.r.l. infringed a patent owned by Mangosoft relating to dynamic directory services. The suit seeks an injunction against continuing infringement, unspecified damages, and interest, costs, and fees. We have filed an answer and counterclaims asserting that the patents are invalid, unenforceable, and not infringed. We received an initial scheduling order from the court that sets some discovery deadlines, but not a trial date. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In February 2007, our StubHub subsidiary was sued in the U.S. District Court for the Central District of California (No. CV-07-1328) in a purported class action lawsuit alleging that StubHub violated the Fair and Accurate Credit Transaction Act by allegedly printing receipts containing more than the last five digits of a credit card number or the expiration date. The complaint seeks compensatory and punitive damages and attorneys fees. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In March 2007, a plaintiff filed a purported antitrust class action lawsuit against eBay in the Western District of Texas alleging that eBay, through its wholly owned subsidiary PayPal, used illegal tie-in and steering practices to improperly monopolize the forms of payment that sellers can use on eBay. The plaintiff alleges claims under sections 1 and 2 of the Sherman Act, as well as related state law claims. The complaint seeks treble damages and an injunction. In April 2007, the plaintiff re-filed the complaint in the U.S. District Court for the Northern District of California (No. 07-CV-01882-RS), and dismissed the Texas action. In June 2007, we filed a motion to dismiss the class action complaint. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In May 2007, Netcraft Corporation filed a lawsuit in the Western District of Wisconsin (No. 07-C-0254C) alleging that eBay and PayPal infringed two of its patents entitled Internet billing methods. The suit seeks an injunction against continuing infringement, unspecified damages, and interest, costs, and fees. The parties are in the process of conducting discovery. The court has recently entered a scheduling order setting the claim construction hearing for November 2007 and the trial for June 2008. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to additional patent disputes, and expect that we will increasingly be subject to patent infringement claims as our services expand in scope and complexity. In particular, we expect that we may face additional patent infringement claims involving various aspects of our Marketplaces, Payments and Communications businesses. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are interpreted by the courts, and as we expand geographically into jurisdictions where the underlying laws with respect to the potential liability of online intermediaries like ourselves are either unclear or less favorable. We believe that additional lawsuits alleging that we have violated copyright or trademark laws will be filed against us, especially in Europe. Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in our methods of doing business, or could require us to enter into costly royalty or licensing agreements.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as our business expands and our company grows larger. Any claims or regulatory actions against us, whether meritorious or not, could be time

consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

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Item 1A: ***Risk Factors***

Risk Factors That May Affect Results of Operations and Financial Condition

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition.

Our operating results may fluctuate.

Our operating results have varied on a quarterly basis during our operating history. Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside our control. Factors that may affect our operating results include the following:

- our ability to retain an active user base, attract new users, and encourage existing users to list items for sale, purchase items through our websites, or use our payment service or communication software and products;
- the volume, size, timing, and completion rate of transactions using our websites or technology;
- our ability to grow activity and activation of the users of our traditional Marketplace businesses in our most mature geographies, especially the U.S., Germany and the U.K.;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our businesses, operations, and infrastructure;
- our ability to integrate, manage, and profitably expand and more effectively monetize the Skype business;
- our ability to successfully integrate and manage other recent and prospective acquisitions;
- regulatory and legal actions imposing obligations on our businesses or our users;
- the actions of our competitors, including the introduction of new sites, services, and products;
- consumer confidence in the safety and security of transactions using our websites or technology and our ability to manage the costs of our user protection programs;
- the costs and results of litigation that involves us;
- the cost and availability of online and traditional advertising, and the success of our brand building and marketing campaigns;
- new laws or regulations, or interpretations of existing laws or regulations, that impose liability on us for actions of our users or otherwise harm our business models or restrict the Internet, electronic commerce, online payments, or online communications;
- our ability to comply with the requirements of entities whose services are required for our operations, such as credit card associations and banks;
- our ability to develop product enhancements, programs, and features at a reasonable cost in a timely manner;

our ability to upgrade and develop our systems, infrastructure, and customer service capabilities to accommodate growth and to improve our websites at a reasonable cost while maintaining 24/7 operations;

technical difficulties or service interruptions involving our websites or services provided to us or our users by third parties;

our ability to increase the acceptance of PayPal by online merchants outside of the eBay Marketplaces, which may require long implementation cycles and incentives to merchants that are initially dilutive;

our ability to expand PayPal s product offerings outside of the U.S. (including our ability to obtain any necessary regulatory approvals);

our ability to manage PayPal s transaction loss rate and payment funding mix;

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our ability to attract new personnel in a timely and effective manner and to retain key employees;

the continued financial strength of our technology suppliers and other parties with whom we have commercial relations;

continued consumer acceptance of the Internet as a medium for commerce and communication in the face of increasing publicity about fraud, spoofing, viruses, and other dangers of the Internet;

general economic conditions and those economic conditions specific to the Internet and e-commerce industries; and

geopolitical events such as war, threat of war, or terrorist actions.

The increased variety of services offered on our websites makes it difficult for us to forecast the level or source of our revenues or earnings accurately. In view of the rapidly evolving nature of our business and our limited operating history, we believe that period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. We do not have backlog, and substantially all of our net revenues each quarter come from transactions involving sales or payments during that quarter. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast income statement expenses as a percentage of net revenues. Quarterly and annual income statement expenses as a percentage of net revenues may be significantly different from historical or projected rates. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. In that event, the trading price of our common stock would almost certainly decline.

We may not maintain our level of profitability or rates of growth.

We believe that our continued profitability and growth will depend in large part on our ability to do the following:

attract new users, keep existing users active and reactivate former users on our websites and services, and increase the activity levels of our active users;

react to changes in consumer use of the Internet and develop new services, as well as new sources of revenues from our existing services;

manage the costs of our business, including the costs associated with maintaining and enhancing our websites, customer support, transaction loss rate, user protection programs, and international and product expansion;

maintain sufficient transaction volume to attract buyers and sellers;

cost effectively increase the awareness of our brands; and

provide our customers with superior community, customer support, and trading, communication, and payment experiences.

We invest heavily in marketing and promotion, customer support, and further development of the operating infrastructure for our core and recently acquired operations. Some of this investment entails long-term contractual commitments. As a result, we may be unable to adjust our spending rapidly enough to compensate for any unexpected revenue shortfall, which may harm our profitability. In addition, we are spending in advance of anticipated growth,

which may also harm our profitability. Growth rates in our most established markets, such as Germany and the U.S., have continued to decline over time. Despite our efforts to stem these declines, growth rates may continue to decline as the existing base of users and transactions becomes larger. As our penetration in established markets grows, we will increasingly need to rely on keeping existing users active and increasing their activity level on our sites for growth in those markets. In addition, our Marketplaces business is facing increased competitive pressure, particularly in Asia. Because a large percentage of PayPal transactions originate on the eBay platform, declines in growth rates in major eBay Marketplace markets also adversely affect PayPal s growth rate. The growth in Skype s user activity has slowed somewhat as Skype has increased its focus on monetization of users. The expected future growth of our PayPal, Skype, StubHub, and Shopping.com businesses may also cause

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downward pressure on our profit margin because those businesses have lower gross margins than our eBay trading platforms.

There are many risks associated with our international operations.

Our international expansion has been rapid and our international business, especially in Germany, the U.K., and South Korea, has also become critical to our revenues and profits. Net revenues outside the United States accounted for approximately 48% and 51%, respectively, of our net revenues in fiscal year 2006 and the first six months of 2007. Expansion into international markets requires management attention and resources and requires us to localize our services to conform to local cultures, standards, and policies. The commercial, Internet, and transportation infrastructure in lesser-developed countries may make it difficult for us to replicate our traditional Marketplace business model. In many countries, we compete with local companies that understand the local market better than we do, and we may not benefit from first-to-market advantages. We may not be successful in expanding into particular international markets or in generating revenues from foreign operations. For example, in 2002 we withdrew our eBay marketplace offering from the Japanese market, and in late 2006 we announced a change to our strategy in China by entering into a joint venture with a local Chinese company. Even if we are successful in developing new markets, we expect the costs of operating new sites to exceed our net revenues for at least 12 months in most countries.

As we continue to expand internationally, including through the expansion of PayPal, Skype, Shopping.com, and Kijiji, we are subject to risks of doing business internationally, including the following:

strong local competitors;

regulatory requirements, including regulation of Internet services, communications, auctioneering, professional selling, distance selling, data protection, banking, and money transmitting, that may limit or prevent the offering of our services in some jurisdictions, prevent enforceable agreements between sellers and buyers, prohibit the listing of certain categories of goods, require product changes, require special licensure, subject us to special taxes, or limit the transfer of information between eBay and our affiliates;

legal uncertainty regarding our liability for the listings and other content provided by our users, including uncertainty as a result of legal systems that are less developed with respect to the Internet, unique local laws, conflicting court decisions and lack of clear precedent or applicable law;

difficulties in integrating with local payment providers, including banks, credit and debit card associations, and electronic fund transfer systems or with the local telecommunications infrastructure;

differing levels of retail distribution, shipping, communications, and Internet infrastructures;

different employee/employer relationships and the existence of workers councils and labor unions;

difficulties in staffing and managing foreign operations;

challenges associated with joint venture relationships, including dependence on our joint venture partners;

difficulties in implementing and maintaining adequate internal controls;

longer payment cycles, different accounting practices, and greater problems in collecting accounts receivable;

potentially adverse tax consequences, including local taxation of our fees or of transactions on our websites;

higher telecommunications and Internet service provider costs;

different and more stringent user protection, data protection, privacy and other laws;

cultural ambivalence towards, or non-acceptance of, online trading;

seasonal reductions in business activity;

expenses associated with localizing our products, including offering customers the ability to transact business in the local currency;

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laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;

profit repatriation restrictions, foreign currency exchange restrictions, and exchange rate fluctuations;

volatility in a specific country s or region s political, economic or military conditions; and

differing intellectual property laws.

Some of these factors may cause our international costs of doing business to exceed our comparable domestic costs. As we expand our international operations and have additional portions of our international revenues denominated in foreign currencies, we also could become subject to increased difficulties in collecting accounts receivable, repatriating money without adverse tax consequences, and risks relating to foreign currency exchange rate fluctuations. The impact of currency exchange rate fluctuations is discussed in more detail under We are exposed to fluctuations in currency exchange rates, below.

We are continuing to expand PayPal s services internationally. We have limited experience with the payments business outside of the U.S. In some countries, expansion of PayPal s business may require a close commercial relationship with one or more local banks, a shared ownership interest with a local entity or registration as a bank under local law. We do not know if these or other factors may prevent, delay, or limit PayPal s expansion or reduce its profitability. Any limitation on our ability to expand PayPal internationally could harm our business.

We maintain a portion of Shopping.com s research and development facilities and personnel in Israel, and as a result, political, economic and military conditions in Israel affect those operations. During 2006, hostilities escalated between Israel and Hamas in the Gaza Strip and between Israel and Hezbollah, based in Lebanon. The future of peace efforts between Israel and its neighboring countries remains uncertain. Increased hostilities or terrorism within Israel or armed hostilities between Israel and neighboring states could make it more difficult for us to continue our operations in Israel, which could increase our costs. In addition, many of Shopping.com s employees in Israel could be required to serve in the military for extended periods of time under emergency circumstances. Shopping.com s Israeli operations could be disrupted by the absence of employees due to military service, which could adversely affect its business.

We are exposed to fluctuations in currency exchange rates.

Because we conduct a significant and growing portion of our business outside the United States but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. In connection with its multi-currency service, PayPal fixes exchange rates twice per day, and may face financial exposure if it incorrectly fixes the exchange rate or if exposure reports are delayed. PayPal also holds some corporate and customer funds in non-U.S. currencies, and thus its financial results are affected by the translation of these non-U.S. currencies into U.S. dollars. In addition, the results of operations of many of our internationally focused websites are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions will result in increased net revenues, operating expenses, and net income. Similarly, our net revenues, operating expenses, and net income will decrease if the U.S. dollar strengthens against foreign currencies. Net revenues in the six month period ended June 30, 2007 were positively impacted by foreign currency translation of $125.2 million, compared to the same period of the prior year. Operating income in the six month period ended June 30, 2007 was positively impacted by foreign currency translation of $72.4 million, compared to the same period of the prior year. As exchange rates vary, net sales and other operating results, when translated, may differ materially from expectations. In particular, to the extent the U.S. dollar strengthens against the Euro, British pound, and Australian dollar, our foreign revenues and profits will be reduced as a result of these

translation adjustments. In addition, to the extent the U.S. dollar strengthens against the Euro, the British pound, and the Australian dollar, cross-border trade related to purchases of dollar-denominated goods by non-U.S. purchasers may decrease, and that decrease may not be offset by a corresponding increase in cross-border trade involving purchases by U.S. buyers of goods denominated in other currencies. While from time to time we enter into transactions to hedge portions of our foreign currency translation exposure, it is impossible to perfectly predict or completely eliminate the effects of this exposure.

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We are subject to patent litigation.

We have repeatedly been sued for allegedly infringing other parties patents. Some of these suits are ongoing, and some of the ongoing suits are described under the heading Item 1: Legal Proceedings, above. We are a defendant in other patent suits and we have been notified of several other potential patent disputes, and expect that we will increasingly be subject to patent infringement claims as our services expand in scope and complexity. In particular, we expect that we may face additional patent infringement claims involving various aspects of our Marketplaces, Payments and Communications businesses. These claims, whether meritorious or not, are time consuming and costly to resolve, and could require expensive changes in our methods of doing business, could require us to enter into costly royalty or licensing agreements, or could require us to cease conducting certain operations.

Government inquiries may lead to charges or penalties.

A large number of transactions occur on our websites. We believe that government regulators have received a substantial number of consumer complaints about both eBay and PayPal, which, while small as a percentage of our total transactions, are large in aggregate numbers. As a result, from time to time we have been contacted by various foreign and domestic governmental regulatory agencies that have questions about our operations and the steps we take to protect our users from fraud. PayPal has received inquiries regarding its restriction and disclosure practices from the Federal Trade Commission and regarding these and other business practices from the attorneys general of a number of states. In September 2006, PayPal entered into a settlement agreement with the attorneys general of a number of states under which it agreed to pay $1.7 million to the attorneys general, shorten and streamline its user agreement, increase educational messaging to users about funding choices, and communicate more information regarding protection programs to users. Our businesses are likely to receive additional inquiries from regulatory agencies in the future, which may lead to action against them. We have responded to all inquiries from regulatory agencies by describing our current and planned antifraud efforts, customer support procedures, operating procedures and disclosures. If one or more of these agencies is not satisfied with our response to current or future inquiries, we could be subject to enforcement actions, fines or other penalties, or forced to change our operating practices in ways that could harm our business.

We are subject to laws relating to the use and transfer of personally identifiable information about our users, especially for financial information and for users located outside of the U.S. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. Violation of these laws, which in many cases apply not only to third-party transactions but also to transfers of information between ourselves and our subsidiaries, and between ourselves, our subsidiaries, and other parties with which we have commercial relations, could subject us to significant penalties and negative publicity and could adversely affect us.

The listing or sale by our users of pirated or counterfeit items may harm our business.

We have received in the past, and we anticipate receiving in the future, communications alleging that certain items listed or sold through our service by our users infringe third-party copyrights, trademarks and trade names, or other intellectual property rights. Although we have sought to work actively with the owners of intellectual property rights to eliminate listings offering infringing items on our websites, some rights owners have expressed the view that our efforts are insufficient. Content owners and other intellectual property rights owners have been active in asserting their rights against online companies, including eBay. Allegations of infringement of intellectual property rights have resulted in threats of litigation and actual litigation against us from time to time, including litigation brought by Tiffany & Co. in the U.S., Rolex S.A. in Germany, Louis Vuitton Malletier and Christian Dior Couture in France, and a number of other owners of intellectual property rights. The plaintiffs in these cases seek to hold eBay liable for counterfeit items listed on our sites by third parties, for the misuse of trademarks in listings or in connection with paid search advertisements, or for alleged violations of selective distribution channel laws. Such plaintiffs seek, among

other things, injunctive relief and damages. Other luxury brand owners have also filed suit against us or have threatened to do so. In addition to litigation from rights owners, we may be subject to criminal penalties if the authorities feel we have aided in the sale of counterfeit goods. While we have had some early success in defending against such litigation, more recent cases have been based, at least in part, on different legal theories than those of earlier cases, and there is no guarantee that we will continue to be successful in defending against such

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litigation. For example, the German Federal Supreme Court recently ruled in the Rolex case that eBay may be liable as a contributor for trademark infringement if it fails to take reasonable measures to prevent recurrence once it is informed of clearly identified infringement. Plaintiffs in recent cases have argued that we are not entitled to safe harbors under the Digital Millennium Copyright Act in the U.S. or as a hosting provider in the European Union because of the active nature of our involvement with our sellers, and that, whether or not such safe harbors are available, we should be found liable because we have not adequately removed counterfeit listings or effectively suspended users who have created such listings. Litigation and negative publicity may increase as our sites gain prominence in markets outside of the U.S., where the laws may be unsettled or less favorable to us. Such litigation is costly for us, could result in damage awards, injunctive relief, or increased costs of doing business through adverse judgment or settlement, could require us to change our business practices in expensive ways, or could otherwise harm our business. Litigation against other online companies could result in interpretations of the law that could also require us to change our business practices or otherwise increase our costs. In addition, a public perception that counterfeit or pirated items are commonplace on our site could damage our reputation and our business.

We are subject to general litigation and regulatory disputes.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as our business expands and our company grows larger. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are interpreted by the courts and as we expand geographically into jurisdictions where the underlying laws with respect to the potential liability of online intermediaries such as ourselves are either unclear or less favorable. In Germany, the German Federal Supreme Court recently ruled that we had a duty to take reasonable measures to keep prohibited DVDs from being sold on our site to minors and that competitors could enforce this duty. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

Acquisitions could result in operating difficulties, dilution, and other harmful consequences.

We have acquired a number of businesses in the past, including, most recently StubHub and StumbleUpon. We expect to continue to evaluate and consider a wide array of potential strategic transactions, including business combinations, acquisitions and dispositions of businesses, technologies, services, products and other assets. At any given time we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations. The process of integrating any acquired business may create unforeseen operating difficulties and expenditures and is itself risky. The areas where we may face difficulties include:

- diversion of management time, as well as a shift of focus from operating the businesses to issues related to integration and administration, particularly given the large number and size and varying scope of our recent acquisitions;

- declining employee morale and retention issues resulting from changes in, or acceleration of, compensation, or changes in management, reporting relationships, future prospects, or the direction of the business;

- the need to integrate each company s accounting, management, information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;

the need to implement controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition had lacked such controls, procedures and policies;

in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries; and

in some cases, the need to transition operations, users, and customers onto our existing platforms.

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The complex earn-out structure associated with the Skype transaction also presents a number of special issues. Skype equity holders were given the option of receiving their portion of acquisition consideration as a lump-sum up-front payment or receiving a lower up-front payment in exchange for the possibility of receiving additional consideration in the form of potential earn-out payments tied to the achievement of certain performance targets prior to June 30, 2009. If these performance targets become unachievable or provide the wrong incentives or if there are disagreements about the calculation of the performance targets or of the amounts due under the earn out, it could result in diversion of management time, distraction of focus from operation of the Skype business, problems with Skype s employee morale and retention, and potential litigation.

Moreover, we may not realize the anticipated benefits of any or all of our acquisitions, or may not realize them in the time frame expected. Future acquisitions or mergers may result in a need to issue additional equity securities, spend our cash, or incur debt, liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business.

System failures could harm our business.

We have experienced system failures from time to time, and any interruption in the availability of our websites will reduce our current revenues and profits, could harm our future revenues and profits, and could subject us to regulatory scrutiny. eBay s primary website has been interrupted for periods of up to 22 hours, and our PayPal site has suffered intermittent unavailability for periods as long as five days. In the second quarter of 2007, PayPal experienced an interruption during which many of PayPal s services were unavailable for approximately four hours. Any unscheduled interruption in our services results in an immediate, and possibly substantial, loss of revenues. Frequent or persistent interruptions in our services could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our sites, and could permanently harm our reputation and brands. Reliability is particularly critical for PayPal, especially as it seeks to expand its Merchant Services business. Because PayPal is a regulated financial entity, frequent or persistent site interruptions could lead to regulatory inquiries. These inquiries could result in fines, penalties, or mandatory changes to PayPal s business practices, and ultimately could cause PayPal to lose existing licenses it needs to operate or prevent it from obtaining additional licenses that it needs to expand. Finally, because our customers may use our products for critical transactions, any system failures could result in damage to our customers businesses. These customers could seek significant compensation from us for their losses. Even if unsuccessful, this type of claim likely would be time consuming and costly for us to address.

Although our systems have been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks, and similar events. Some of our systems, including our Shopping.com and Skype websites, are not fully redundant, and our disaster recovery planning is not sufficient for all eventualities. Our systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions we may take, the occurrence of a natural disaster, a decision by any of our third-party hosting providers to close a facility we use without adequate notice for financial or other reasons, or other unanticipated problems at our hosting facilities could result in lengthy interruptions in our services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures.

Our growth will depend on our ability to develop our brands, and these efforts may be costly.

Our historical growth has been largely attributable to word of mouth, and to frequent and high visibility national and local media coverage. We believe that continuing to strengthen our brands will be critical to achieving widespread acceptance of our services, and will require an increased focus on active marketing efforts across all of our brands.

The demand for and cost of online and traditional advertising have been increasing, and may continue to increase. Accordingly, we will need to spend increasing amounts of money on, and devote greater resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Since 2004, we have significantly increased the number of brands we are supporting, adding Rent.com, Shopping.com, Kijiji, StubHub, and Skype, among others. Each of these brands requires its own resources, increasing the costs of our branding efforts. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues

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may not offset the expenses incurred in building our brands. If we do attract new users to our services, they may not conduct transactions using our services on a regular basis. If we fail to promote and maintain our brands, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, our business would be harmed.

Our business and users may be subject to sales tax and other taxes.

The application of indirect taxes (such as sales and use tax, value-added tax, or VAT, goods and services tax, business tax, and gross receipt tax) to e-commerce businesses such as eBay and to our users is a complex and evolving issue. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the Internet and e-commerce. In many cases, it is not clear how existing statutes apply to the Internet or electronic commerce or communications conducted over the Internet. In addition, some jurisdictions have implemented or may implement laws specifically addressing the Internet or some aspect of electronic commerce or communications on the Internet. Some taxing authorities have notified us that they believe we owe them certain taxes. The application of existing, new, or future laws could have adverse effects on our business.

Several proposals have been made at the U.S. state and local level that would impose additional taxes on the sale of goods and services through the Internet. These proposals, if adopted, could substantially impair the growth of e-commerce, and could diminish our opportunity to derive financial benefit from our activities. The U.S. federal government s moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet is scheduled to expire in November 2007. This moratorium does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules.

In conjunction with the Streamlined Sales Tax Project an ongoing, multi-year effort by U.S., state, and local governments to require collection and remittance of distant sales tax by out-of-state sellers bills have been introduced in the U.S. Congress to overturn the Supreme Court s *Quill* decision, which limits the ability of state governments to require sellers outside of their own state to collect and remit sales taxes on goods purchased by in-state residents. An overturning of the *Quill* decision would harm our users and our business.

We do not collect taxes on the goods or services sold by users of our services. One or more states or the federal government or foreign countries may seek to impose a tax collection or reporting or record-keeping obligation on companies such as eBay and PayPal that engage in or facilitate e-commerce. Such an obligation could be imposed by legislation intended to improve tax compliance (and legislation to such effect is under discussion or pending in the U.S. Congress, several states, and a number of foreign jurisdictions) or if eBay were ever deemed to be the legal agent of eBay sellers by a jurisdiction in which eBay operates. Imposition of a record keeping or tax collecting requirement would harm our business. Foreign authorities may also require eBay to help ensure compliance by our users with local laws regulating professional sellers, including tax requirements. In addition, we have periodically received requests from tax authorities in some foreign jurisdictions for information regarding the transactions of large classes of sellers on our sites, and in some cases we may be legally obligated to provide this data. Requirements that we disclose sellers transaction records to tax authorities, and any use of those records to investigate, collect taxes from, or prosecute sellers, could decrease seller activity on our sites and harm our business.

In July 2003, in compliance with the changes brought about by the European Union, or EU, VAT directive on electronically supplied services, eBay began collecting VAT on the fees charged to EU sellers on eBay sites catering to EU residents. eBay also pays input VAT to suppliers within the various countries the company operates. In most cases, eBay is entitled to reclaim input VAT from the various countries with regard to our own payments to suppliers or vendors. However, because of our unique business model, the application of the laws and rules that allow such reclamation is sometimes uncertain. A successful assertion by one or more countries that eBay is not entitled to reclaim VAT would harm our business. Furthermore, the EU has begun to discuss potential changes to its VAT

regime, some of which would harm our business.

We continue to work with the relevant tax authorities and legislators to clarify eBay s obligations under new and emerging laws and regulations. Passage of new legislation and the imposition of additional tax or tax-related reporting requirements could harm our users and our business. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which eBay conducts or will conduct business.

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Failure to deal effectively with fraudulent transactions and customer disputes would increase our loss rate and harm our business.

PayPal s highly automated and liquid payment service makes PayPal an attractive target for fraud. In configuring its service, PayPal faces an inherent trade-off between customer convenience and security. Identity thieves and those committing fraud using stolen credit card or bank account numbers can potentially steal large amounts of money from businesses such as PayPal. We believe that several of PayPal s current and former competitors in the electronic payments business have gone out of business or significantly restricted their businesses largely due to losses from this type of fraud. While PayPal uses advanced anti-fraud technologies, we expect that technically knowledgeable criminals will continue to attempt to circumvent PayPal s anti-fraud systems. In addition, PayPal s service could be subject to employee fraud or other internal security breaches, and PayPal would be required to reimburse customers for any funds stolen as a result of such breaches. Merchants could also request reimbursement, or stop using PayPal, if they are affected by buyer fraud.

PayPal incurs substantial losses from merchant fraud, including claims from customers that merchants have not performed or that their goods or services do not match the merchant s description. PayPal also incurs losses from claims that the customer did not authorize the purchase, from buyer fraud, from erroneous transmissions, and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition to the direct costs of such losses, if they are related to credit card transactions and become excessive they could result in PayPal losing the right to accept credit cards for payment. If PayPal were unable to accept credit cards, the velocity of trade on eBay could decrease, in which case our business would further suffer. PayPal was assessed substantial fines for excess charge-backs in 2001, and excessive charge-backs may arise in the future. PayPal has taken measures to detect and reduce the risk of fraud, but these measures need to be continually improved and may not be effective against new forms of fraud or in connection with new product offerings. If these measures do not succeed, our business will suffer. PayPal s fraud loss rate increased significantly in the second half of 2006.

Until January 2007, PayPal offered a buyer protection program that refunded to buyers up to $1,000 in certain eBay transactions if they did not receive the goods they purchased or if the goods differed significantly from what was described by the seller. In January 2007, this program was revised to refund buyers who use PayPal up to $200 in most eBay transactions, and up to $2,000 in certain eBay transactions with selected eBay sellers, if they do not receive the goods they purchased or if the goods differ significantly from what was described by the seller. If PayPal makes such a refund, it may seek to collect reimbursement from the seller, but may not be able to receive any funds from the seller. The PayPal buyer protection program has increased PayPal s loss rate and could cause future fluctuations in PayPal s loss rate. For the full year ended December 31, 2006 and first six months of 2007, PayPal s transaction loss (including both direct losses and buyer protection payouts) totaled $126.4 million and $69.8 million, representing 0.33% and 0.30% of PayPal s total payment volume, respectively.

eBay faces similar risks with respect to fraudulent activities on its websites. eBay periodically receives complaints from users who may not have received the goods that they had purchased. In some cases individuals have been arrested and convicted for fraudulent activities using our websites. eBay also receives complaints from sellers who have not received payment for the goods that a buyer had contracted to purchase. Non-payment may occur because of miscommunication, because a buyer has changed his or her mind and decided not to honor the contract to purchase the item, or because the buyer bid on the item maliciously, in order to harm either the seller or eBay. In some European jurisdictions, buyers may also have the right to withdraw from a sale made by a professional seller within a specified time period.

While eBay can suspend the accounts of users who fail to fulfill their payment or delivery obligations to other users, eBay does not have the ability to require users to make payment or deliver goods, or otherwise make users whole other than through our limited buyer protection programs. Other than through these programs, eBay does not

compensate users who believe they have been defrauded by other users, although users who pay through PayPal may have reimbursement rights from their credit card company or bank, which in turn will seek reimbursement from PayPal. eBay also periodically receives complaints from buyers as to the quality of the goods purchased. We expect to continue to receive communications from users requesting reimbursement or threatening or commencing legal action against us if no reimbursement is made. Our liability for these sort of claims is only beginning to be clarified and may be higher in some non-U.S. jurisdictions than it is in the U.S. Litigation involving liability for

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third-party actions could be costly for us, divert management attention, result in increased costs of doing business, lead to adverse judgments, or otherwise harm our business. In addition, affected users will likely complain to regulatory agencies that could take action against us, including imposing fines or seeking injunctions.

Negative publicity and user sentiment generated as a result of fraudulent or deceptive conduct by users of our eBay and PayPal services could damage our reputation, reduce our ability to attract new users or retain our current users, and diminish the value of our brand names. We believe that negative user experiences are one of the primary reasons users stop using our services.

The current regulatory environment for Voice over Internet Protocol (VoIP) is uncertain, and Skype s business could be harmed by new regulations or the application of existing regulations to its products.

The current regulatory environment for VoIP is uncertain and rapidly changing. Skype s voice communications products are currently subject to very few, if any, of the same regulations that apply to traditional telephony and VoIP-based telephone replacement services. VoIP companies are generally subject to different regulatory regimes in different countries, and in most cases are subject to lower, or no, regulatory fees and lesser, or no, specific regulatory requirements. Governments may impose new or increased fees, taxes, and administrative burdens on VoIP companies, or Skype may change its product offerings in a manner that makes it become subject to telecommunications regulations. Increased fees could include access and other charges payable to local exchange carriers to carry and terminate traffic, contributions to federal or state Universal Service Funds in the United States and elsewhere, and other charges. New laws and regulations may require Skype to meet various emergency service requirements, disability access requirements, user protection requirements, number assignment and portability requirements, and interception or wiretapping requirements, such as the Communications Assistance for Law Enforcement Act in the U.S. and similar laws in other jurisdictions. Such regulations could result in substantial costs depending on the technical changes required to accommodate the requirements, and any increased costs could erode Skype s pricing advantage over competing forms of communication. Regulations that decrease the degree of privacy for users of Skype s products could also slow its adoption. The increasing growth and popularity of the VoIP telephony and Internet communications market heighten the risk that governments will seek to regulate VoIP and Internet communications, and Skype has received an increasing number of inquiries from regulators about its products and services. Competitors, including the incumbent telephone companies, may devote substantial lobbying efforts to seek greater protection for their existing businesses and increased regulation of VoIP. In the United States, various state legislatures and regulatory agencies are beginning to impose their own requirements and taxes on VoIP. Increased regulatory requirements on VoIP would increase Skype s costs, and, as a result, our business would suffer.

Regulatory agencies may require Skype to conform to rules that are difficult or impossible for it to comply with due to the nature of its communications technologies, which could adversely affect its business. For example, while suitable alternatives may be developed in the future, Skype is currently unable to identify the exact geographic origin of the traffic traversing the Internet or to provide detailed calling information about computer-to-computer communications, either of which may make complying with future regulatory requirements, such as emergency service requirements, difficult or impossible.

In many countries in which Skype products are available, the laws that may relate to its offerings are unclear. We cannot be certain that Skype or its customers are currently in full compliance with regulatory or other legal requirements in all countries in which Skype is used. Skype s failure or the failure of those with whom Skype transacts business to comply with these requirements could materially adversely affect our business, financial condition and results of operations.

New rules and regulations with respect to VoIP are being considered in various countries around the world, and at least some of these rules and regulations are likely to be adopted and to be applicable to Skype. Such new rules and

regulations are likely to increase our costs of doing business and could prevent us from delivering our products and offerings over the Internet, which could adversely affect Skype s customer base, and thus its revenue.

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Skype depends on key technology that is licensed from third parties.

Skype licenses technology underlying certain key components of its software from third parties it does not control, including the technology underlying its peer-to-peer architecture and firewall traversal technology, and the audio and video compression/decompression used to provide high sound and video quality. Although Skype has contracts in place with its third party technology providers, there can be no assurance that the licensed technology or other technology that we may seek to license in the future will continue to be available on commercially reasonable terms, or at all. The loss of, or inability to maintain, existing licenses could result in a decrease in service quality until equivalent technology or suitable alternatives can be developed, identified, licensed and integrated. While we believe Skype has the ability to either extend these licenses on commercially reasonable terms or identify and obtain or develop suitable alternative products, the costs associated with licensing or developing such products could be high. Any failure to maintain these licenses on commercially reasonable terms or license or develop alternative technologies would harm Skype s business.

Our businesses depend on continued and unimpeded access to the Internet. Internet service providers may be able to block, degrade, or charge us for our users additional fees for our offerings.

Our customers rely on access to the Internet to use our products and services. In many cases that access is provided by companies that compete with at least some of our offerings, including incumbent telephone companies, cable companies, mobile communications companies, and large Internet service providers. Some of these providers have stated that they may take measures that could degrade, disrupt, or increase the cost of customers use of our offerings by restricting or prohibiting the use of their lines for our offerings, by filtering, blocking, delaying, or degrading the packets containing the data associated with our products, or by charging increased fees to us or our users for use of their lines to provide our offerings. Some of these providers have contractually restricted their customers access to Skype s offerings through their terms of service with their customers. These activities are technically feasible and may be permitted by applicable law. In addition, Internet service providers could attempt to charge us each time our customers use our offerings. Worldwide, a number of companies have announced plans to take such actions or are selling products designed to facilitate such actions. Interference with our offerings or higher charges for access to our offerings, whether paid by us or by our customers, could cause us to lose existing customers, impair our ability to attract new customers, and harm our revenue and growth.

Changes to credit card association or bank fees, rules, or practices could harm PayPal s business.

PayPal does not belong to or directly access credit card associations, such as Visa and MasterCard. As a result, PayPal must rely on banks or other payment processors to process transactions, and must pay a fee for this service. From time to time, credit card associations may increase the interchange fees that they charge for each transaction using one of their cards. PayPal s credit card processors have the right to pass any increases in interchange fees on to PayPal as well as increase their own fees for processing. These increased fees increase PayPal s operating costs and reduce its profit margins. PayPal is also required by its processors to comply with credit card association operating rules, and PayPal has agreed to reimburse its processors for any fines they are assessed by credit card associations as a result of any rule violations by PayPal or PayPal s customers. The credit card associations set and interpret the credit card rules. Visa, MasterCard, American Express, or Discover could adopt new operating rules or re-interpret existing rules that PayPal or its processors might find difficult or even impossible to follow. As a result, PayPal could lose its ability to give customers the option of using credit cards to fund their payments. If PayPal were unable to accept credit cards, its business would be seriously damaged. In addition, the velocity of trade on eBay could decrease and our business would further suffer.

PayPal is required to comply with credit card associations special operating rules for Internet payment services. PayPal and its credit card processors have implemented specific business processes for merchant customers in order to

comply with these rules, but any failure to comply could result in fines, the amount of which would be within Visa s and MasterCard s discretion. PayPal also could be subject to fines from MasterCard and Visa if it fails to detect that merchants are engaging in activities that are illegal or that are considered high risk, primarily the sale of certain types of digital content. For high risk merchants, PayPal must either prevent such merchants from using PayPal or register such merchants with MasterCard and Visa and conduct additional monitoring with respect to such merchants. PayPal has incurred fines from its credit card processor relating to

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PayPal s failure to detect the use of its service by high risk merchants. The amount of these fines has not been material, but any additional fines in the future would likely be for larger amounts, could become material, and could result in a termination of PayPal s ability to accept credit cards or changes in PayPal s process for registering new customers, which would seriously damage PayPal s business.

Changes in PayPal s funding mix could adversely affect PayPal s results.

PayPal pays significant transaction fees when senders fund payment transactions using credit cards, nominal fees when customers fund payment transactions by electronic transfer of funds from bank accounts, and no fees when customers fund payment transactions from an existing PayPal account balance. Senders fund a significant portion of PayPal s payment volume using credit cards, and PayPal s financial success will remain highly sensitive to changes in the rate at which its senders fund payments using credit cards. Senders may prefer funding using credit cards rather than bank account transfers for a number of reasons, including the ability to dispute and reverse charges directly with their credit card provider if merchandise is not delivered or is not as described, the ability to earn frequent flier miles or other incentives offered by credit card issuers, the ability to defer payment, or a reluctance to provide bank account information to PayPal. In addition, some of PayPal s newer offerings, including the ability to make a limited number of payments without opening an account, have a higher rate of credit card funding than PayPal s basic product offering. In September 2006, PayPal entered into a settlement agreement with the attorneys general of a number of states under which it agreed to pay $1.7 million to the attorneys general, shorten and streamline its user agreement, and communicate more information regarding protection programs to users. Also in September 2006, PayPal announced that it had reached a preliminary settlement agreement under which it agreed to pay approximately $3.5 million into a settlement fund for the benefit of a class represented by plaintiffs in a suit that alleged, among other things, that PayPal s disclosure regarding the effects of users choice of funding mechanism was deceptive. Although PayPal did not admit any liability for any of the allegations in the two cases, the required changes to our disclosure practices under the settlement agreements could result in increased use of credit card funding, which would harm PayPal s business.

If PayPal was found to be subject to or in violation of any U.S. laws or regulations governing banking, money transmission, or electronic funds transfers, it could be subject to liability and forced to change its business practices.

A number of U.S. states have enacted legislation regulating money transmitters. To date, PayPal has obtained licenses in 37 of these jurisdictions and interpretations in nine states that licensing is not required under their existing statutes. PayPal is applying for licenses in seven additional states (including some states that previously provided favorable interpretations). As a licensed money transmitter, PayPal is subject to bonding requirements, restrictions on its investment of customer funds, reporting requirements, and inspection by state regulatory agencies. In July 2005, PayPal entered into a settlement agreement and agreed to pay $225,000 to the California Department of Financial Institutions in connection with alleged violations of the California Financial Code relating to the use of a receipt form for international payments that had not been pre-approved by the Department, and incomplete reporting to the Department. If PayPal was found to be in violation of other money services laws or regulations, PayPal could be subject to liability, forced to cease doing business with residents of certain states, or forced to change its business practices. Any change to PayPal s business practices that makes the service less attractive to customers or prohibits its use by residents of a particular jurisdiction could decrease the velocity of trade on eBay, which would further harm our business. Even if PayPal is not forced to change its business practices, it could be required to obtain additional licenses or regulatory approvals that could impose a substantial cost on PayPal.

We believe that the licensing or approval requirements of the U.S. Office of the Comptroller of the Currency, the Federal Reserve Board, and other federal or state agencies that regulate banks, bank holding companies, or other types of providers of e-commerce services do not apply to PayPal, except for the money transmitter licenses mentioned

above. However, one or more states could conclude that PayPal is engaged in an unauthorized banking business. If PayPal is found to be engaged in an unauthorized banking business in one or more states, it might be subject to monetary penalties and adverse publicity and might be required to cease doing business with residents of those states or could be subject to fines and penalties. The need to comply with state laws prohibiting unauthorized

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banking activities could also limit PayPal s ability to enhance its services in the future. Any change to PayPal s business practices that makes the service less attractive to customers or prohibits its use by residents of a particular jurisdiction could decrease the velocity of trade on eBay, which would further harm our business.

Although there have been no definitive interpretations to date, PayPal has assumed that its service is subject to the Electronic Fund Transfer Act and Regulation E of the Federal Reserve Board. As a result, among other things, PayPal must provide advance disclosure of changes to its service, follow specified error resolution procedures and reimburse consumers for losses above $50 from transactions not authorized by the consumer. PayPal currently voluntarily reimburses consumers for all financial losses from transactions not authorized by the consumer, not just losses above $50. PayPal seeks to pass most of these losses on to the relevant merchants, but PayPal incurs losses if the merchant does not have sufficient funds in their PayPal account. In addition, PayPal is subject to the financial privacy provisions of the Gramm-Leach-Bliley Act, state financial privacy laws, and related regulations. As a result, some customer financial information that PayPal receives is subject to limitations on reuse and disclosure. Existing and potential future privacy laws may limit PayPal s ability to develop new products and services that make use of data gathered through its service. The provisions of these laws and related regulations are complicated. Even technical violations of these laws can result in penalties of up to $1,000 for each non-compliant transaction. PayPal processed an average of approximately 1.9 million transactions per day during the quarter ended June 30, 2007, and any violations could expose PayPal to significant liability. Any negative change in the public s perception of PayPal s compliance with privacy laws and policies could also negatively impact PayPal s business.

PayPal s status under banking or financial services laws or other laws in markets outside the U.S. is unclear.

PayPal currently allows its customers with credit cards to send payments from 190 markets, and to receive payments in 49 of those markets (including the U.S.). In 35 of these 49 markets, customers can withdraw funds electronically to local bank accounts, and in nine of these markets, customers can withdraw funds by receiving a bank draft in the mail. In the remaining five markets, customers can only withdraw funds if they have a U.S. bank account; otherwise, the only way they can use funds they receive is to send the funds to other PayPal accounts, for example, by purchasing products from other PayPal members. These limitations affect PayPal s ability to grow in these markets.

PayPal offers customers the ability to send or receive payments denominated in 17 currencies. Of the 190 markets whose residents can use the PayPal service (27 countries plus four French overseas departments) are members of the European Union. As of July 2007, PayPal provides localized versions of its service to customers in the EU through PayPal (Europe) S.A.R.L. et Cie, SCA., a wholly-owned subsidiary of PayPal that is licensed as a bank in Luxembourg. Previously, PayPal delivered services in the EU through a subsidiary in the United Kingdom licensed to operate as an Electronic Money Institution. PayPal (Europe) implements its localized services in EU countries through an expedited passport notification process through the Luxembourg regulator to regulators in other EU member states, pursuant to EU Directives. PayPal (Europe) has completed the passport notice process in all EU member countries. The regulators in these countries could notify PayPal (Europe) of local consumer protection laws that will apply to its business, in addition to Luxembourg consumer protection law. The regulators in these countries could also seek to persuade the Luxembourg regulator to order PayPal (Europe) to conduct its activities in the local country through a branch office. Any such responses from these regulators could increase the cost of, or delay, PayPal s plans for expanding its business. PayPal (Europe) is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, funds management, corporate governance or other requirements imposed on Luxembourg banks. PayPal does not have experience in operating as a bank.

In markets other than the U.S., EU, Australia and China, PayPal serves its customers through PayPal Private Ltd., a wholly-owned subsidiary of PayPal that is based in Singapore. In many of these markets, it is not clear whether PayPal s Singapore-based service is subject to local law or, if it is subject to local law, whether such local law requires a payment processor like PayPal to be licensed as a bank or financial institution or otherwise. Even if PayPal is not

currently required to obtain a license in those countries, other laws of those countries (such as data protection and anti-money laundering laws) may apply, and future localization or targeted marketing of PayPal s service in those countries could require licensure. If PayPal was found to be subject to and in violation of any foreign

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laws or regulations, it could be subject to liability, forced to change its business practices and forced to suspend providing services to customers in one or more countries. Alternatively, PayPal could be required to obtain licenses or regulatory approvals that could impose a substantial cost on it and involve considerable delay to the provision or development of its product. Delay or failure to receive such a license would require PayPal to change its business practices or features in ways that would adversely affect PayPal s international expansion plans and could require PayPal to suspend providing services to customers in one or more countries.

In addition, if PayPal were to seek to expand the financial products that it offers outside of the U.S., either alone, through a commercial alliance, or through an acquisition, PayPal could become subject to additional licensure requirements or increased regulatory scrutiny, which could impose substantial costs and delay the introduction of any new products.

PayPal s failure to manage customer funds properly would harm its business.

PayPal s ability to manage and account accurately for customer funds requires a high level of internal controls. In some of the markets that PayPal serves and currencies that PayPal offers, PayPal has a limited operating history and limited management experience in managing these internal controls. As PayPal s business continues to grow, it must strengthen its internal controls accordingly. PayPal s success requires significant public confidence in its ability to handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain necessary controls or to manage accurately customer funds could diminish customer use of PayPal s product severely.

New and existing regulations could harm our business.

We are subject to the same foreign and domestic laws as other companies conducting business on and off the Internet. Today, there are still relatively few laws specifically directed towards online services. However, due to the increasing popularity and use of the Internet and online services, many laws relating to the Internet are being debated at all levels of government around the world. Adopted and proposed laws and regulations cover issues such as user privacy, freedom of expression, pricing, fraud, content and quality of products and services, taxation, tax-related reporting of business activity, advertising, intellectual property rights, and information security. It is not clear how existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel and defamation, obscenity, and personal privacy apply to online businesses. The majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Those laws that do reference the Internet, such as the U.S. Digital Millennium Copyright Act and the European Union s Directive on Distance Selling and Electronic Commerce, have begun to be interpreted by the courts and implemented by the EU Member States, but their applicability and scope remain somewhat uncertain. As our activities and the types of goods listed on our websites expand, including through acquisitions such as our recent acquisition of StubHub, an online ticket marketplace, regulatory agencies or courts may claim or hold that we or our users are either subject to licensure or prohibited from conducting our business in their jurisdiction, either with respect to our services in general, or in order to allow the sale of certain items, such as real estate, event tickets, cultural goods, boats, and automobiles.

Numerous states and foreign jurisdictions, including the State of California, where our headquarters are located, have regulations regarding auctions and the handling of property by secondhand dealers or pawnbrokers. Several states and some foreign jurisdictions have attempted, and may attempt in the future, to impose such regulations upon us or our users. Attempted enforcement of these laws against some of our users appears to be increasing and such attempted enforcements could harm our business. In 2002, Illinois amended its auction law to provide for a special regulatory regime for Internet auction listing services, and we have registered as an Internet auction listing service in Illinois. Although this registration has not had a negative impact on our business to date, other regulatory and licensure claims could result in costly litigation or could require us to change the way we or our users do business in ways that increase

costs or reduce revenues or force us to prohibit listings of certain items for some locations. We could also be subject to fines or other penalties, and any of these outcomes could harm our business.

In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, foreign jurisdictions may claim that we are required to comply with their laws. For example, the Australian high

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court has ruled that a U.S. website in certain circumstances must comply with Australian laws regarding libel. A number of the lawsuits against us relating to trademark issues seek to have our websites subject to unfavorable local laws. As we expand and localize our international activities, we become obligated to comply with the laws of the countries in which we operate. Laws regulating Internet companies outside of the U.S. may be less favorable than those in the U.S., giving greater rights to consumers, content owners, and users. Compliance may be more costly or may require us to change our business practices or restrict our service offerings relative to those in the U.S. In addition, we may be subject to overlapping legal or regulatory regimes that impose conflicting requirements on us. Our failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to bans on our services.

Our tickets business is subject to regulatory, competitive, and other risks that could harm this business.

Our tickets business, which includes our recently-acquired StubHub business, is subject to numerous risks. Many jurisdictions have laws and regulations covering the resale of event tickets, and some jurisdictions prohibit the resale of event tickets at prices above the face value of the tickets. In addition, new laws and regulations may be passed that would limit our or our users ability to continue this business. Regulatory agencies or courts may claim or hold that we are responsible for ensuring that our users comply with these laws and regulations or that we or our users are either subject to licensure or prohibited from reselling event tickets in their jurisdictions.

Some event organizers and professional sports teams have expressed concern about the resale of their event tickets on our sites, and in November 2006 the New England Patriots filed suit against StubHub alleging that StubHub s resale activities violate Massachusetts ticket resale laws and constitute intentional interference with the team s relationship with its season ticket holders. In April 2007, Ticketmaster filed suit against eBay d/b/a StubHub alleging that StubHub had improperly interfered with Ticketmaster s contracts with its clients by wrongfully obtaining tickets for sale in violation of Ticketmaster s exclusive contractual rights to sell such tickets. Such litigation could result in damage awards, could require us to change our business practices in harmful ways, or could otherwise negatively affect our tickets business. Our tickets business is also subject to seasonal fluctuations and the general economic and business conditions that impact the sporting events and live entertainment industries. Our tickets business also faces significant competition from a number of sources, including ticketing service companies (such as TicketMaster and Tickets.com), event organizers (such as professional sports teams and leagues), ticket brokers, and other online and offline ticket resellers (such as TicketsNow and RazorGator). If we are unable to effectively compete with these competitors, our tickets business could be harmed.

Our business is subject to online security risks, including security breaches and identity theft.

To succeed, online commerce and communications must provide a secure transmission of confidential information over public networks. Our security measures may not detect or prevent security breaches that could harm our business. Currently, a significant number of our users authorize us to bill their credit card accounts directly for all transaction fees charged by us. PayPal s users routinely provide credit card and other financial information. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effect secure transmission of confidential information, including customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect transaction data. In addition, any party who is able to illicitly obtain a user s password could access the user s transaction data. An increasing number of websites have reported breaches of their security. Any compromise of our security could harm our reputation and, therefore, our business. In addition, a party that is able to circumvent our security measures could misappropriate proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. Under credit card rules and our contract with our card processors, if there is a breach of credit card information that we store, or that is stored by PayPal s direct credit card processing customers, we could be liable to the credit card issuing banks

for their cost of issuing new cards and related expenses. In addition, if we fail to follow credit card industry security standards, even if there is no compromise of customer information, we could incur significant fines or lose our ability to give customers the option of using credit cards to fund their payments or pay their fees. If we were unable to accept credit cards, our business would be seriously damaged.

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Our servers are also vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions, and we have experienced denial-of-service type attacks on our system that have made all or portions of our websites unavailable for periods of time. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. These issues are likely to become more difficult as we expand the number of places where we operate. Security breaches 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.

Our users, as well as those of other prominent Internet companies, have been and will continue to be targeted by parties using fraudulent spoof emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses through trojan horse programs to our users computers. These emails appear to be legitimate emails sent by eBay, PayPal, Skype, or a user of one of those businesses, but direct recipients to fake websites operated by the sender of the email or request that the recipient send a password or other confidential information via email or download a program. Despite our efforts to mitigate spoof e-mails through product improvements and user education, spoof remains a serious problem that may damage our brand, discourage use of our websites, and increase our costs.

Some businesses and security consultants have expressed concern over the potential for Skype s software to create security vulnerabilities on its users computers. While we believe Skype s software is safe and does not pose a security risk to its users, the perception that Skype s software is unsafe could hamper its adoption, and any actual security breach could damage Skype s reputation and expose us to a risk of loss or litigation and possible liability.

Our failure to manage growth could harm our business.

We are currently expanding our headcount, facilities, and infrastructure in the U.S. and internationally. We anticipate that further expansion will be required as we continue to expand into new lines of business and geographic areas. This expansion has placed, and we expect it will continue to place, a significant strain on our management, operational, and financial resources. The areas that are put under strain by our growth include the following:

Website Stability. We must constantly add new hardware, update software and add new engineering personnel to accommodate the increased use of our and our subsidiaries websites and the new products and features we regularly introduce. This upgrade process is expensive, and the increased complexity of our websites and the need to support multiple platforms as our portfolio of brands grows increases the cost of additional enhancements. Failure to upgrade our technology, features, transaction processing systems, security infrastructure, or network infrastructure to accommodate increased traffic or transaction volume could harm our business. Adverse consequences could include unanticipated system disruptions, slower response times, degradation in levels of customer support, impaired quality of users experiences of our services, impaired quality of services for third-party application developers using our externally accessible Application Programming Interface, or API, and delays in reporting accurate financial information. We may be unable to effectively upgrade and expand our systems in a timely manner or smoothly integrate any newly developed or purchased technologies or businesses with our existing systems, and any failure to do so could result in problems on our sites. For example, in October 2004, we experienced unscheduled downtime on the PayPal website over a period of five days related to system upgrades, and in the second quarter of 2007, PayPal experienced an interruption during which many of PayPal s services were unavailable for approximately four hours. Despite our efforts to increase site scalability and reliability, our infrastructure could prove unable to handle a larger volume of customer transactions. Some of our more recently acquired businesses may be particularly subject to this risk given their shorter histories and, in some cases, higher growth rates. Any failure to accommodate transaction growth could impair customer satisfaction, lead to a loss of customers, impair our ability to add customers, or increase our costs, all of which would harm our business. Further, steps to increase

the reliability and redundancy of our systems are expensive, reduce our margins, and may not be successful in reducing the frequency or duration of unscheduled downtime.

Website Usability. User activity rates on our websites depend in part on the quality of our users experiences on those sites. The rapid growth in the number and complexity of products and features on

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our sites has occasionally caused users to become confused or overwhelmed or has otherwise impaired users experiences on those sites. We are in the process of making numerous changes in an attempt to improve the user experience on our eBay websites. These attempts at improvement of the user experience could fail, or could decrease activity among users who had grown used to or preferred the existing experience on our sites. Any impairment of customer satisfaction as a result of site usability issues could lead to a loss of customers or impair our ability to add customers, either of which would harm our business.

Customer Account Billing. Our revenues depend on prompt and accurate billing processes. Problems with our conversion to a new billing system during the second and third quarters of 2004 caused incorrect account balance totals to be displayed for some users. While these problems have been corrected and we believe that no users were overcharged, our failure to grow our transaction-processing capabilities to accommodate the increasing number of transactions that must be billed on any of our websites would harm our business and our ability to collect revenue.

Customer Support. We are expanding our customer support operations to accommodate the increased number of users and transactions on our websites and the increased level of user protection activity we provide worldwide. If we are unable to provide these operations in a cost-effective manner, users of our websites may have negative experiences, current and future revenues could suffer, and our operating margins may decrease.

We must continue to hire, train, and manage new employees at a rapid rate. If our new hires perform poorly, if we are unsuccessful in hiring, training, managing, and integrating these new employees, or if we are not successful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to improve our transaction processing, operational and financial systems, procedures, and controls. This is a special challenge as we acquire new operations with different systems. Our current and planned personnel, systems, procedures, and controls may not be adequate to support our future operations. The additional headcount and capital investments we are adding increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by expense reductions in the short term.

Use of our services for illegal purposes could harm our business.

The law relating to the liability of providers of online services for the activities of their users on their service is currently unsettled in the United States and internationally. We are aware that certain goods, such as weapons, adult material, tobacco products, alcohol, and other goods that may be subject to regulation, have been listed and traded on our service. We may be unable to prevent our users from selling unlawful goods or selling goods in an unlawful manner, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by users through our service. We have been subject to several lawsuits based upon such allegations. In December 2004, an executive of Baazee.com, our Indian subsidiary, was arrested in connection with a user s listing of a pornographic video clip on that site. Similarly, our Korean subsidiary and one of its employees were found criminally liable for listings on the Korean subsidiary s website. The German Federal Supreme Court recently ruled that we had a duty to take reasonable measures to keep prohibited DVDs from being sold on our site to minors and that competitors could enforce this duty. In order to reduce our exposure to this liability, we have prohibited the listing of certain items and increased the number of personnel reviewing questionable items. In the future, we may implement other protective measures that could require us to spend substantial resources or discontinue certain service offerings. Any costs incurred as a result of potential liability relating to the sale of unlawful goods or the unlawful sale of goods could harm our business. In addition, we have received significant and continuing media attention relating to the listing or sale of unlawful goods using our services. This negative publicity could damage our reputation and diminish the value of our brand names. It also could make users reluctant to continue to use our services.

PayPal s payment system is also susceptible to potentially illegal or improper uses. These may include illegal online gambling, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, piracy of software and other intellectual property, money laundering, bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages or tobacco products, and online securities fraud. PayPal s acceptable use policy enables PayPal to fine users in certain jurisdictions up to $500 or take legal action to recover its losses for certain violations of that policy, including online gambling and illegal sales of prescription

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medications. Despite measures PayPal has taken to detect and lessen the risk of this kind of conduct, illegal activities could still be funded using PayPal.

PayPal is subject to anti-money laundering and counter-terrorist financing laws and regulations that prohibit, among other things, its involvement in transferring the proceeds of criminal activities. Although PayPal has adopted a program to comply with these laws and regulations, any errors or failure to implement the program properly could lead to lawsuits, administrative action, and prosecution by the government. In July 2003, PayPal agreed with the U.S. Attorney for the Eastern District of Missouri that it would pay $10 million as a civil forfeiture to settle allegations that its provision of services to online gambling merchants violated provisions of the USA PATRIOT Act and further agreed to have its compliance program reviewed by an independent audit firm. PayPal is also subject to regulations that require it to report suspicious activities involving transactions of $2,000 or more and may be required to obtain and keep more detailed records on the senders and recipients in certain transfers of $3,000 or more. The interpretation of suspicious activities in this context is uncertain. Future regulations under the USA PATRIOT Act may require PayPal to revise the procedures it uses to verify the identity of its customers and to monitor international transactions more closely. As PayPal localizes its service in other countries, additional verification and reporting requirements apply, which in some cases are more stringent. Several countries, including Australia, Canada and Luxembourg, are in the process of implementing new anti-money laundering and counter-terrorist financing laws and regulations, and the impact of these laws and regulations on PayPal s business are uncertain. These regulations could impose significant costs on PayPal and make it more difficult for new customers to join its network. PayPal could be required to learn more about its customers before opening an account, to obtain additional verification of customers and to monitor its customers activities more closely. These requirements, as well as any additional restrictions imposed by credit card associations, could raise PayPal s costs significantly and reduce the attractiveness of its product. Failure to comply with federal, state or foreign country money laundering and counter-terrorist financing laws could result in significant criminal and civil lawsuits, penalties, and forfeiture of significant assets.

We are subject to risks associated with information disseminated through our service.

The law relating to the liability of online services companies for information carried on or disseminated through their services is currently unsettled. Claims could be made against online services companies under both U.S. and foreign law for defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Several private lawsuits seeking to impose liability upon us under a number of these theories have been brought against us. In addition, domestic and foreign legislation has been proposed that would prohibit or impose liability for the transmission over the Internet of certain types of information. Our service features a Feedback Forum, which includes information from users regarding other users. Although all such feedback is generated by users and not by us, claims of defamation or other injury have been made in the past and could be made in the future against us for content posted in the Feedback Forum. Several recent court decisions have narrowed the scope of the immunity provided to Internet service providers like us under the Communications Decency Act. This trend, if continued, may increase our potential liability to third parties for the user-provided content on our site. Our liability for such claims may be higher in jurisdictions outside the U.S. where laws governing Internet transactions are unsettled. If we become liable for information provided by our users and carried on our service in any jurisdiction in which we operate, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue certain service offerings, which would negatively affect our financial results. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business.

Customer complaints or negative publicity about our customer support or anti-fraud measures could diminish use of our services.

Customer complaints or negative publicity about our customer support could severely diminish consumer confidence in and use of our services. Measures we sometimes take to combat risks of fraud and breaches of privacy and security have the potential to damage relations with our customers or decrease activity on our sites by making

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our sites more difficult to use or restricting the activities of certain users. These measures heighten the need for prompt and accurate customer support to resolve irregularities and disputes. Effective customer support requires significant personnel expense, and this expense, if not managed properly, could significantly impact our profitability. Failure to manage or train our customer support representatives properly could compromise our ability to handle customer complaints effectively. If we do not handle customer complaints effectively, our reputation may suffer and we may lose our customers confidence.

Because it is providing a financial service and operating in a more regulated environment, PayPal, unlike eBay, must provide telephone as well as email customer support and must resolve certain customer contacts within shorter time frames. As part of PayPal s program to reduce fraud losses and prevent money laundering, it may temporarily restrict the ability of customers to withdraw their funds if those funds or the customer s account activity are identified by PayPal s risk models as suspicious. PayPal has in the past received negative publicity with respect to its customer support and account restrictions, and has been the subject of purported class action lawsuits and state attorney general inquiries alleging, among other things, failure to resolve account restrictions promptly. If PayPal is unable to provide quality customer support operations in a cost-effective manner, PayPal s users may have negative experiences, PayPal may receive additional negative publicity, its ability to attract new customers may be damaged, and it could become subject to additional litigation. As a result, current and future revenues could suffer, or its operating margins may decrease. In addition, negative publicity about or experiences with PayPal s customer support could cause eBay s reputation to suffer or affect consumer confidence in the eBay brands as a whole.

Problems with or price increases by third parties who provide services to us or to our users could harm our business.

A number of parties provide services to us or to our users that benefit us. Such services include seller tools that automate and manage listings, merchant tools that manage listings and interface with inventory management software, storefronts that help our users list items, caching services that make our sites load faster, and shipping providers that deliver goods sold on our platform, among others. In some cases we have contractual agreements with these companies that give us a direct financial interest in their success, while in other cases we have none. PayPal is dependent on the processing companies and banks that link PayPal to the credit card and bank clearing networks. Financial, regulatory, or other problems that prevent these companies from providing services to us or our users could reduce the number of listings on our websites or make completing transactions or payments on our websites more difficult, and thereby harm our business. Price increases by companies that provide services to our users could also reduce the number of listings on our websites or make it more difficult for our users to complete transactions, thereby harming our business. For example, we believe recent changes in postal rates that affected certain lower-weight packages and mailings between the U.S. and Canada may have reduced listing volume on our sites in certain categories. Any security breach at one of these companies could also affect our customers and harm our business. Although we generally have been able to renew or extend the terms of contractual arrangements with third parties who provide services to us on acceptable terms, there can be no assurance that we will continue to be able to do so in the future, and there can be no assurance that third parties who provide services directly to our users will continue to do so at reasonable rates or at all.

We depend on key personnel.

Our future performance depends substantially on the continued services of our senior management and other key personnel and our ability to retain and motivate them. The loss of the services of any of our executive officers or other key employees could harm our business. We do not have long-term employment agreements with any of our key personnel, we do not maintain any key person life insurance policies, and our Chief Executive Officer and many other members of our senior management team have fully vested the vast majority of their in-the-money equity incentives. Our new businesses all depend on attracting and retaining key personnel. Our future success also will depend on our

ability to attract, train, retain and motivate highly skilled technical, managerial, marketing, and customer support personnel. Competition for these personnel is intense, and we may be unable to successfully attract, integrate, or retain sufficiently qualified personnel. In making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the stock options they are to receive in connection with their employment. Fluctuations in our stock price may make it more difficult to retain

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and motivate employees whose stock option strike prices are substantially above current market prices. Similarly, decreases in the number of unvested in-the-money stock options held by existing employees, whether because our stock price has declined, options have vested, or because the size of follow-on option grants has declined, may make it more difficult to retain and motivate employees.

Skype s future success depends substantially upon the continued services of its senior management and key personnel, and the loss of their services could harm our business. Several key members of Skype s engineering team are consultants, not full-time employees, who provide services to us and third parties. A number of Skype s employees had equity in Skype prior to its acquisition by eBay. Skype equity holders were given the option of receiving their portion of the acquisition consideration in the form of a lump-sum up-front payment or receiving a lower up-front payment in exchange for the possibility of receiving additional consideration in the form of potential earn-out payments tied to the achievement of certain performance targets prior to June 30, 2009. Several key members of Skype s senior management and key employees chose to receive less up-front consideration in exchange for the possibility of receiving the performance-based earn-out payments. Although eligible Skype employees have also been granted eBay stock options, the earn-out payments are not tied to continued employment with Skype or eBay, and key Skype employees may choose to depart because of differences in corporate culture, because they believe the earn-out targets will be achieved without their contributions, or because they believe the earn-out targets are not achievable. The loss of the services of any of Skype s senior management or key personnel could delay the development and introduction of new features and products, and could harm our ability to grow Skype s business.

Our industry is intensely competitive, and other companies or governmental agencies may allege that our behavior is anti-competitive.

Marketplaces

Marketplaces businesses currently or potentially compete with a number of companies providing both particular categories of goods and broader ranges of goods. The Internet provides new, rapidly evolving and intensely competitive channels for the sale of all types of goods. We expect competition to intensify in the future. The barriers to entry into these channels are relatively low and current offline and new competitors can easily launch online sites at a nominal cost using commercially available software or partnering with any one of a number of successful e-commerce companies.

Our broad-based competitors include the vast majority of traditional department, warehouse, discount, and general merchandise stores (as well as the online operations of these traditional retailers), emerging online retailers, online classified services, and other shopping channels such as offline and online home shopping networks. These include most prominently: Wal-Mart, Target, Sears, Macy s, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam s Club, Amazon.com, Buy.com, AOL.com, Yahoo! Shopping, MSN, QVC, and Home Shopping Network.

A number of companies offer a variety of services that provide channels for buyers to find and buy items from sellers of all sizes, including online aggregation and classifieds sites such as craigslist (in which we own an equity stake of approximately 25%), Google Base, Microsoft Live Expo, and Oodle.com. Our Kijiji websites offers classifieds listings in a variety of local international markets, and in July 2007 Kijiji launched local classifieds sites in the U.S. In many markets in which it operates, including in the U.S., Kijiji competes against more established classifieds sites.

In 2005, we acquired Shopping.com Ltd., an online shopping comparison site. Shopping.com competes with sites such as Buy.com, Google s Product Search, Nextag.com, Pricegrabber.com, Shopzilla, and Yahoo! Product Search, which offer shopping search engines that allow consumers to search the Internet for specified products. Recent legal developments may affect the utility of shopping comparison sites if manufacturers begin requiring more uniformity in product pricing. In addition, sellers are increasingly acquiring new customers by paying for search-related

advertisements on search engine sites such as Google and Yahoo!. We use product search engines and paid search advertising to channel users to our sites, but these services also have the potential to divert users to other online shopping destinations.

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We also compete with many local, regional, and national specialty retailers and exchanges in each of the major categories of products offered on our site. For example, category-specific competitors to offerings in our Motors category include: Advance Auto Parts, AutoByTel.com, Autonation.com, AutoTrader.com, Autozone, Barrett-Jackson, California Classics, Car Parts Wholesale, Car-Part.com, CarMax, Cars.com, CarsDirect.com, CSK Auto, Discount Auto Parts, Dupont Registry, eClassics.com, ExpressAutoparts.com, Genuine/NAPA, Hemmings, iMotors.com, JC Whitney, Kragen, Kruse International, OpenAuto.com, PartsAmerica.com, Pep Boys, RM Auctions, Inc., The Tire Rack, TraderOnline, Trader Publishing, newspaper classifieds, used car dealers, swap meets, car clubs, and vehicle recyclers.

Our international Marketplaces websites compete with similar online and offline channels in each of their vertical categories in most countries. In addition, they compete with general online e-commerce sites, such as Quelle and Otto in Germany, Yahoo-Kimo in Taiwan, Daum and Gmarket in South Korea, and Amazon in the United Kingdom and other countries. In some of these countries, there are online sites that have much larger customer bases and greater brand recognition than we do, and in certain of these jurisdictions there are competitors that may have a better understanding of local culture and commerce than we do.

The principal competitive factors for Marketplaces include the following:

ability to attract buyers and sellers;

volume of transactions and price and selection of goods;

customer service; and

brand recognition.

With respect to our online competition, additional competitive factors include:

community cohesion, interaction and size;

website ease-of-use and accessibility;

system reliability;

reliability of delivery and payment;

level of service fees; and

quality of search tools.

Some current and potential competitors have longer operating histories, larger customer bases and greater brand recognition in other business and Internet sectors than we do. Other online trading services may be acquired by, receive investments from, or enter into other commercial relationships with well-established and well-financed companies. As a result, some of our competitors with other revenue sources may be able to devote more resources to marketing and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to website and systems development than we can. Some of our competitors have offered services for free and others may do this as well. We may be unable to compete successfully against current and future competitors. In addition, certain offline competitors may encourage manufacturers to limit or cease distribution of their products to dealers who sell through online channels such as eBay, or may attempt to use existing or future government regulation

to prohibit or limit online commerce in certain categories of goods or services. The adoption by manufacturers or government authorities of policies or regulations discouraging the sales of goods or services over the Internet could force eBay users to stop selling certain products on our websites. Increased competition or anti-Internet distribution policies or regulations may result in reduced operating margins, loss of market share and diminished value of our brand.

Conversely, other companies and government agencies have in the past and may in the future allege that our actions violate the antitrust or competition laws of the U.S. or other countries, or otherwise constitute unfair competition. Such claims, even if without foundation, typically are very expensive to defend, involve negative publicity and diversion of management time and effort, and could result in significant judgments against us.

In order to respond to changes in the competitive environment, we may, from time to time, make pricing, service or marketing decisions or acquisitions that could harm our profitability. For example, PayPal has

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implemented a buyer protection program generally covering losses for eBay.com transactions paid with PayPal up to $200 and covering losses from selected eBay sellers up to $2,000, with no deductible. Depending on the amount and size of claims we receive under these programs, these product offerings could harm our profitability. Similarly, in July 2006 we announced pricing and product changes related to our store inventory format that may reduce the revenue and profits of that format. In addition, certain competitors may offer or continue to offer free shipping or other transaction related services, which could be impractical or inefficient for eBay users to match. New technologies may increase the competitive pressures by enabling our competitors to offer a lower cost service.

Although we have established Internet traffic arrangements with several large online services and search engine companies, these arrangements may not be renewed on commercially reasonable terms or these companies may decide to promote competitive services. Even if these arrangements are renewed, they may not result in increased usage of our services. In addition, companies that control user access to transactions through network access, Internet browsers, or search engines, could promote our competitors, channel current or potential users to their vertically integrated electronic commerce sites or their advertisers sites, attempt to restrict our access, or charge us substantial fees for inclusion. Search engines may increasingly become a starting point for online shopping, and as the costs of operating an online store decline, online sellers may increasingly sell goods through multiple channels, which could reduce the number and value of transactions these sellers conduct through our sites.

PayPal

The market for PayPal s product is emerging, intensely competitive, and characterized by rapid technological change. PayPal competes with existing online and off-line payment methods, including, among others:

- credit card merchant processors that offer their services to online merchants, including American Express, Cardservice International, Chase Paymentech, First Data, and Wells Fargo; and payment gateways, including CyberSource and Authorize.net (which have agreed to merge);
- money remitters such as MoneyGram and Western Union;
- bill payment services, including CheckFree;
- processors that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account, including Certegy, PayByTouch and TeleCheck, a subsidiary of First Data, or to pay on credit, including Bill Me Later;
- providers of traditional payment methods, particularly credit cards, checks, money orders, and Automated Clearing House transactions;
- issuers of stored value targeted at online payments, including VisaBuxx, NetSpend and GreenDot (formerly known as Next Estate);
- Google Checkout, which enables the online payment of merchants using credit cards; and
- BidPay, an online auction payment service owned by CyberSource.

Some of these competitors have longer operating histories, significantly greater financial, technical, marketing, customer service and other resources, greater name recognition, or a larger base of customers in affiliated businesses than PayPal. PayPal s competitors may respond to new or emerging technologies and changes in customer requirements faster and more effectively than PayPal. Some of these competitors may also be subject to lesser

licensing, anti-money laundering, and other regulatory requirements than PayPal. They may devote greater resources to the development, promotion, and sale of products and services than PayPal, and they may offer lower prices. For example, Google Checkout recently extended its free payment processing promotion through the end of 2007. Promotions such as this may force PayPal to lower its prices in response. Competing services tied to established banks and other financial institutions may offer greater liquidity and engender greater consumer confidence in the safety and efficacy of their services than PayPal.

Overseas, PayPal faces competition from similar channels and payment methods. In each country, numerous banks provide standard online credit card acquiring and processing services, and these banks typically have leading market share. In addition, PayPal faces competition from Visa s Visa Direct, MasterCard s MoneySend, Royal Bank

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of Scotland s World Pay and ClickandBuy in the European Community, NOCHEX, Moneybookers, NETeller and FirePay in the United Kingdom, CertaPay and HyperWallet in Canada, Paymate in Australia, Alipay, YeePay, and 99Bill in China and Inicis in South Korea. In addition, in certain countries, such as Germany and Australia, electronic funds transfer is a leading method of payment for both online and offline transactions. As in the U.S., established banks and other financial institutions that do not currently offer online payments could quickly and easily develop such a service.

Some of PayPal s competitors, such as Wells Fargo, First Data, American Express, and Royal Bank of Scotland, also provide processing or foreign exchange services to PayPal. If PayPal were to seek to expand the financial products that it offers, either alone, through a commercial alliance or an acquisition, these processing and foreign exchange relationships could be negatively affected, and these competitors and other processors could make it more difficult for PayPal to deliver its services.

Skype

The market for Skype s products is also emerging, intensely competitive, and characterized by rapid technological change. Many traditional telecommunications carriers and cable providers offer, or have indicated that they plan to offer, VoIP products or services that compete with the software Skype provides. In addition, many established Internet companies, including AOL, Google, Microsoft, and Yahoo, as well as newer companies, offer, or have indicated that they plan to offer in the near future, products that are similar to Skype s. We expect competitors to continue to improve the performance of their current products and introduce new products, software, services, and technologies. If Skype s competitors successfully introduce new products or enhance their existing products, this could reduce the market for Skype s products, increase price competition, or make Skype s products obsolete, which could lower Skype s adoption rates, decrease its ability to attract new users or cause its current users to migrate to a competing company. In addition, some of Skype s competitors, such as telecommunications carriers and cable television providers, are bundling services and products that Skype does not offer. These include various forms of wireless communications, voice and data services, Internet access, and cable television. This form of bundling may put Skype at a competitive disadvantage if these providers can combine a variety of service offerings at a single attractive price. Furthermore, competitors may choose to make their services interoperable with one another, rather than proprietary, which could increase the attractiveness of their services relative to Skype and decrease the value of Skype s network of users.

Many of Skype s current and potential competitors have longer operating histories, are substantially larger, and have greater financial, marketing, technical, and other resources. Some also have greater name recognition and a larger installed base of customers than Skype has. As a result of their greater resources, many current and potential competitors may be able to lower their prices substantially, thereby eroding some or all of Skype s cost advantage.

Our business may be adversely affected by factors that cause our users to spend less time on our websites, including seasonal factors, national events and increased usage of other websites.

Anything that diverts our users from their customary level of usage of our websites could adversely affect our business. We would therefore be adversely affected by geopolitical events such as war, the threat of war, or terrorist activity, and natural disasters, such as hurricanes or earthquakes. Similarly, our results of operations historically have been seasonal because many of our users reduce their activities on our websites with the onset of good weather during the summer months, and on and around national holidays. In addition, increased usage of social networking or other entertainment websites may decrease the amount of time users spend on our websites, which could adversely affect our financial results.

We depend on the continued growth of online commerce and communications.

The business of selling goods over the Internet, particularly through online trading, is dynamic and relatively new. Concerns about fraud, privacy, and other problems may discourage additional consumers from adopting the Internet as a medium of commerce. In countries such as the U.S. and Germany, where our services and online commerce generally have been available for some time and the level of market penetration of our services is high, acquiring new users for our services may be more difficult and costly than it has been in the past. In order to expand

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our user base, we must appeal to and acquire consumers who historically have used traditional means of commerce to purchase goods. If these consumers prove to be less active than our earlier users, and we are unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, our business could be adversely impacted.

The success of Skype depends on continued growth in its number of users, which in turn depends on wider public acceptance of VoIP and our ability to provide other services to Skype users. The VoIP communications medium is still in its early stages, and it may not develop a broad audience. Skype users may be required to purchase computer headsets, or leave a personal computer on to communicate, and they may believe that the price advantage for VoIP is insufficient to justify the perceived inconvenience. Potential users may also view more familiar online communication methods, such as e-mail or instant messaging, as sufficient for their communications needs. Managers of some large private branch exchange, or PBX, systems in businesses, universities, government agencies, and other institutions may refuse to allow the use of Skype due to concerns over security, server usage, or for other reasons. If VoIP does not achieve wide public acceptance, our Skype business will be adversely affected.

Our business depends on the development and maintenance of the Internet infrastructure.

The success of our services will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security, as well as timely development of complementary products, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements, or problems caused by viruses, worms, and similar programs may harm the performance of the Internet. The backbone computers of the Internet have been the targets of such programs. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage generally as well as the level of usage of our services.

We may be unable to protect or enforce our own intellectual property rights adequately.

We regard the protection of our trademarks, copyrights, patents, domain names, trade dress, and trade secrets as critical to our success. We aggressively protect our intellectual property rights by relying on a combination of trademark, copyright, patent, trade dress and trade secret laws, and through the domain name dispute resolution system. We also rely on contractual restrictions to protect our proprietary rights in products and services. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. These contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent misappropriation of our technology or deter independent development of similar technologies by others. We pursue the registration of our domain names, trademarks, and service marks in the U.S. and internationally. Effective trademark, copyright, patent, domain name, trade dress, and trade secret protection is very expensive to maintain and may require litigation. We must protect our trademarks, patents, and domain names in an increasing number of jurisdictions, a process that is expensive and may not be successful in every location. For example, Skype is in the process of applying to register the Skype name as a trademark worldwide. In the EU, Skype s application is being opposed. If this opposition to Skype s application were to be successful, Skype might be forced to apply for trademark registration in each individual EU country, resulting in increased expenditures and damage to its business if its application were rejected in individual countries. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation.

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We are subject to the risks of owning real property.

We own real property, including land and buildings related to our operations. We have little experience in managing real property. Ownership of this property subjects us to risks, including:

the possibility of environmental contamination and the costs associated with fixing any environmental problems;

adverse changes in the value of these properties, due to interest rate changes, changes in the neighborhoods in which the properties are located, or other factors;

the possible need for structural improvements in order to comply with zoning, seismic, disability act, or other requirements; and

possible disputes with tenants, neighboring owners, or others.

Some anti-takeover provisions may affect the price of our common stock.

Our Board of Directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the preferences, rights and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock may be harmed by rights granted to the holders of any preferred stock that may be issued in the future. Some provisions of our certificate of incorporation and bylaws could have the effect of making it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock. These include provisions that provide for a classified board of directors, prohibit stockholders from taking action by written consent and restrict the ability of stockholders to call special meetings. We are also subject to provisions of Delaware law that prohibit us from engaging in any 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. This restriction could have the effect of delaying or preventing a change of control.

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

Stock repurchase activity during the three months ended June 30, 2007 was as follows:

Period	Total Number of Shares Purchased(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet be Purchased Under the Program(1)
April 1, 2007-April 30, 2007	741,125	$ 33.86	738,760	$ 1,976,294,955
May 1, 2007-May 31, 2007	6,613,837	$ 34.02	6,613,837	$ 1,751,444,015
June 1, 2007-June 30, 2007	2,985,000	$ 31.40	2,985,000	$ 1,657,721,582
	10,339,962		10,337,597	

(1) In July 2006, our Board authorized a stock repurchase program for up to $2.0 billion of our common stock within two years from the date of authorization. In January 2007, our Board authorized the expansion of the stock repurchase program to provide for the repurchase of up to an additional $2.0 billion of our common stock by January 2009. Under this program, as of June 30, 2007, we had repurchased approximately $2.3 billion of our common stock at an average price of $31.20 per share. As of June 30, 2007, $1.7 billion remained available for further purchases under this program.

(2) Includes shares of stock repurchased from employees, in addition to the 10.3 million shares repurchased pursuant to our stock repurchase program.

Item 3: ***Defaults Upon Senior Securities***

Not applicable.

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Item 4: ***Submission of Matters to a Vote of Security Holders***

eBay held its Annual Meeting of Stockholders on June 14, 2007. The following is a brief description of each matter voted upon at the meeting and the number of votes cast for, withheld, or against, the number of abstentions and the number of broker non-votes with respect to each matter. The three directors proposed by eBay for re-election were elected to new, three year terms by the following vote:

Director Name	Shares Voted For	Shares Withheld
Philippe Bourguignon	1,181,685,823	14,296,692
Thomas J. Tierney	1,181,639,879	14,342,636
Margaret C. Whitman	1,180,631,989	15,350,526

The stockholders approved the Company s 1999 Global Equity Incentive Plan Amendment: Shares voted for: 996,188,620; Shares voted against: 39,316,808; Shares abstaining: 5,836,707; Broker Non-Votes: 154,640,380

The stockholders approved the Company s 1998 Employee Stock Purchase Plan Amendment: Shares voted for: 965,027,579 Shares voted against: 70,472,760; Shares abstaining: 5,841,796; Broker Non-Votes: 154,640,380.

The stockholders approved the appointment of the auditors: Shares voted for: 1,179,134,498; Shares voted against: 11,075,598; Shares abstaining: 5,772,419

Item 5: ***Other Information***

The Audit Committee of our Board of Directors has adopted a policy requiring the pre-approval of any non-audit engagement of PricewaterhouseCoopers LLP, or PwC, our independent registered public accounting firm. In the event that we wish to engage PwC to perform accounting, technical or other permitted services not related to the services performed by PwC as our independent registered public accounting firm, our internal finance personnel will prepare a summary of the proposed engagement, detailing the nature of the engagement, the reasons why PwC is the preferred provider of such services and the estimated duration and cost of the engagement. The report will be provided to our Audit Committee or a designated committee member, who will evaluate whether the proposed engagement will interfere with the independence of PwC in the performance of its auditing services. We intend to disclose all approved non-audit engagements in the appropriate quarterly report on Form 10-Q or annual report on Form 10-K.

During the quarter ended June 30, 2007, there were no pre-approvals of any non-audit engagement work to be performed by PwC.

Item 6: ***Exhibits***

Exhibit 10.01	1998 Employee Stock Purchase Plan, as amended+
Exhibit 10.02	1999 Global Equity Incentive Plan, as amended+
Exhibit 31.01	Certification of eBay s Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.02	Certification of eBay s Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.01	

	Certification of eBay s Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.02	Certification of eBay s Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

+ Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

eBay Inc.
Principal Executive Officer:

By: /s/ Margaret C. Whitman

Margaret C. Whitman
President and Chief Executive Officer

Date: July 26, 2007

Principal Financial Officer:

By: /s/ Robert H. Swan

Robert H. Swan
Senior Vice President and Chief Financial Officer

Date: July 26, 2007

Principal Accounting Officer:

By: /s/ H. Baird Radford, III

H. Baird Radford, III
Vice President, Corporate Controller and Interim Chief Accounting Officer

Date: July 26, 2007

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