EBAY INC
Form 10-Q
October 27, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 000-24821

eBay Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**77-0430924** **(I.R.S. Employer** **Identification Number)**
2145 Hamilton Avenue **San Jose, California** **(Address of principal executive offices)**	**95125** **(Zip Code)**

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of October 14, 2009, there were 1,292,961,679 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.

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

eBay Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

	December 31, 2008	September 30, 2009
	(In thousands, except par value amounts)	
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,188,928	$ 2,557,859
Short-term investments	163,734	601,443
Accounts receivable, net	435,197	419,982
Loans receivable, net	570,071	511,809
Funds receivable and customer accounts	1,467,962	1,993,294
Other current assets	460,698	389,200
Total current assets	6,286,590	6,473,587
Long-term investments	106,178	479,285
Property and equipment, net	1,198,714	1,293,775
Goodwill (see Note 4)	7,025,398	8,016,465
Intangible assets, net	736,134	909,401
Other assets	239,425	183,859
Total assets	$ 15,592,439	$ 17,356,372
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 170,332	$ 209,333
Funds payable and amounts due to customers	1,467,962	1,993,294
Accrued expenses and other current liabilities	784,774	961,966
Deferred revenue and customer advances	181,596	231,992
Income taxes payable	100,423	50,093
Borrowings from credit agreement	1,000,000	200,000
Total current liabilities	3,705,087	3,646,678
Deferred and other tax liabilities, net	753,965	907,342
Other liabilities	49,529	51,185
Total liabilities	4,508,581	4,605,205
Stockholders equity:		
Common stock, $0.001 par value; 3,580,000 shares authorized; 1,282,025 and 1,292,774 shares outstanding	1,470	1,481
Additional paid-in capital	9,585,853	9,870,102
Treasury stock at cost, 188,200 and 188,251 shares	(5,376,970)	(5,377,258)
Retained earnings	5,970,020	7,004,211
Accumulated other comprehensive income	903,485	1,252,631
Total stockholders equity	11,083,858	12,751,167

Total liabilities and stockholders equity	$ 15,592,439	$ 17,356,372

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
	(In thousands, except per share amounts) (Unaudited)			
Net revenues	$ 2,117,531	$ 2,237,852	$ 6,505,415	$ 6,356,430
Cost of net revenues	560,963	643,908	1,648,478	1,809,067
Gross profit	1,556,568	1,593,944	4,856,937	4,547,363
Operating expenses:				
Sales and marketing	451,753	491,461	1,463,190	1,359,277
Product development	190,842	205,207	554,393	605,126
General and administrative	248,909	272,177	793,791	797,966
Provision for transaction and loan losses	88,269	96,682	260,872	270,597
Amortization of acquired intangible assets	52,720	72,803	162,472	200,066
Restructuring		12,673		36,937
Total operating expenses	1,032,493	1,151,003	3,234,718	3,269,969
Income from operations	524,075	442,941	1,622,219	1,277,394
Interest and other income (expense), net	38,567	(4,606)	88,077	8,957
Income before income taxes	562,642	438,335	1,710,296	1,286,351
Provision for income taxes	(70,423)	(88,599)	(298,014)	(252,160)
Net income	$ 492,219	$ 349,736	$ 1,412,282	$ 1,034,191
Net income per share:				
Basic	$ 0.38	$ 0.27	$ 1.08	$ 0.80
Diluted	$ 0.38	$ 0.27	$ 1.07	$ 0.80
Weighted average shares:				
Basic	1,288,937	1,293,511	1,311,501	1,288,150
Diluted	1,297,484	1,311,274	1,322,126	1,299,279

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
	(In thousands) (Unaudited)			
Net income	$ 492,219	$ 349,736	$ 1,412,282	$ 1,034,191
Other comprehensive income:				
Foreign currency translation	(597,518)	329,745	(367,276)	284,759
Unrealized (losses) gains on investments, net	(114,953)	94,724	(432,424)	179,646
Unrealized gains (losses) on hedging activities	19,022	(359)	11,046	(46,458)
Tax benefit (provision) on above items	44,974	(36,534)	168,487	(68,801)
Net change in accumulated other comprehensive (loss) income	(648,475)	387,576	(620,167)	349,146
Comprehensive income	$ (156,256)	$ 737,312	$ 792,115	$ 1,383,337

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2008	2009
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net income	$ 1,412,282	$ 1,034,191
Adjustments:		
Provision for transaction and loan losses	260,872	270,597
Depreciation and amortization	517,917	610,162
Stock-based compensation	269,481	302,769
Changes in assets and liabilities, net of acquisition effects	(262,500)	(80,233)
Net cash provided by operating activities	2,198,052	2,137,486
Cash flows from investing activities:		
Purchases of property and equipment, net	(406,739)	(394,156)
Changes in principal loans receivable, net		7,517
Purchases of investments	(107,990)	(468,371)
Maturities and sales of investments	42,248	26,971
Acquisitions, net of cash acquired	(159,064)	(1,209,433)
Other	(51,369)	5,889
Net cash used in investing activities	(682,914)	(2,031,583)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	115,615	51,796
Repurchases of common stock, net	(2,177,942)	
Excess tax benefits from stock-based compensation	4,670	585
Tax witholdings related to net share settlements of restricted stock awards and units	(18,498)	(26,361)
Net payments from borrowings under credit agreement	(200,000)	(800,000)
Other		(8,063)
Net cash used in financing activities	(2,276,155)	(782,043)
Effect of exchange rate changes on cash and cash equivalents	(117,457)	45,071
Net decrease in cash and cash equivalents	(878,474)	(631,069)
Cash and cash equivalents at beginning of period	4,221,191	3,188,928
Cash and cash equivalents at end of period	$ 3,342,717	$ 2,557,859
Supplemental cash flow disclosures:		
Cash paid for interest	$ 1,257	$ 5,921
Cash paid for income taxes	$ 329,160	$ 278,117
Non-cash investing and financing activities:		
Common stock options assumed pursuant to acquisition	4,398	5,361

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

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.

We operate three primary business segments: Marketplaces, Payments and Communications. Our Marketplaces segment provides the infrastructure to enable global online commerce on a variety of platforms, including the traditional eBay.com platform, our other online platforms, such as our online classifieds businesses, our secondary tickets marketplace (StubHub), our online shopping comparison website (Shopping.com), our apartment listing service platform (Rent.com), as well as our fixed price media marketplace (Half.com). Our Payments segment is comprised of our online payment solutions PayPal and Bill Me Later (which we acquired in November 2008). Our Communications segment, which consists of Skype, enables Internet communications between Skype users and provides low-cost connectivity to traditional fixed-line and mobile telephones. On September 1, 2009, we entered into a definitive agreement to sell the share capital of Skype Luxembourg Holdings S.a.r.l., Skype Inc., Camino Networks, Inc. and Sonorit Holdings, A.S. (collectively with their respective subsidiaries, the Skype Companies) to an entity organized and owned by an investment group led by Silver Lake and that includes the Canada Pension Plan Investment Board, Index Ventures and Andreessen Horowitz (the Buyer). Upon completion of the sale, we will hold an approximately 35 percent equity investment in the Buyer. For further details please see Note 4 Skype Assets Held for Sale.

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

Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 transaction and loan losses, legal contingencies, income taxes, revenue recognition, stock-based compensation and the recoverability of 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. We have evaluated all subsequent events through the date the financial statements were issued on October 27, 2009.

The condensed consolidated financial statements include 100% of the assets and liabilities of these majority-owned subsidiaries and the ownership interests of minority investors are recorded as a noncontrolling interest. Investments in private entities where we hold 20% or more but less than a 50% ownership interest 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 (expense), net. Investments in private 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, where our share of the investees results of operations is not included in our condensed consolidated statement of income, except to the extent of earnings distributions actually received from the investee, and the cost basis of our investments is included in long-term investments.

Recent Accounting Pronouncements

On January 1, 2009, we adopted new accounting guidance for business combinations as issued by the Financial Accounting Standards Board (FASB). The new accounting guidance establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes from previous guidance resulting from this new guidance include the expansion of the definitions of a business and a business combination. For all business

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

combinations (whether partial, full or step acquisitions), the acquirer will record 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration will be recognized at its fair value on the acquisition date and; for certain arrangements, changes in fair value will be recognized in earnings until settlement; and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition. The new accounting guidance also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted new accounting guidance for noncontrolling interests in subsidiaries as issued by the FASB. The new accounting guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as a minority interest, is a third-party ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, the new guidance requires the consolidated statement of income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The new guidance also requires disclosure on the face of the consolidated statement of income of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted new accounting guidance as issued by the FASB which delayed the effective date of fair value accounting for all nonfinancial assets and nonfinancial liabilities by one year, except those recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements (see Note 7 Fair Value Measurement of Assets and Liabilities for additional information).

On January 1, 2009, we adopted new disclosure requirements as issued by the FASB related to derivative instruments and hedging activities. The new disclosure requirements expand previous guidance and require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted new accounting guidance for assets acquired and liabilities assumed in a business combination as issued by the FASB. The new guidance amends the provisions previously issued by the FASB related to the initial recognition and measurement, subsequent measurement and accounting and disclosures for assets and liabilities arising from contingencies in business combinations. The new guidance eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

During the second quarter of 2009, we adopted three related sets of accounting guidance as issued by the FASB. The accounting guidance sets forth rules related to determining the fair value of financial assets and financial liabilities when the activity levels have significantly decreased in relation to the normal market, guidance related to the determination of other-than-temporary impairments to include the intent and ability of the holder as an indicator in the determination of whether an other-than-temporary impairment exists and interim disclosure requirements for the fair value of financial instruments. The adoption of the three sets of accounting guidance did not have a material impact on our consolidated financial statements.

During the second quarter of 2009, we adopted new accounting guidance for the determination of the useful life of intangible assets as issued by the FASB. The new guidance amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The new guidance also requires expanded disclosure regarding the determination of intangible asset useful lives. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

During the second quarter of 2009, we adopted new accounting guidance related to subsequent events as issued by the FASB. The new requirement establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

issued or were available to be issued. See Principles of consolidation and basis of presentation included in Note 1 The Company and Summary of Significant Accounting Policies for the related disclosure. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

During the third quarter of 2009, we adopted the new Accounting Standards Codification (ASC) as issued by the FASB. The ASC has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued new accounting guidance which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity (VIE) and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the VIE. The new guidance significantly changes the consolidation rules for VIEs including the consolidation of common structures, such as joint ventures, equity method investments and collaboration arrangements. The guidance is applicable to all new and existing VIEs. The provisions of this new accounting guidance is effective for interim and annual reporting periods ending after November 15, 2009 and will become effective for us beginning in the first quarter of 2010. We are currently evaluating the impact of this accounting guidance on our consolidated financial statements.

In September 2009, the FASB issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance will be applied prospectively and will become effective during the first quarter of 2011. Early adoption is allowed. We are currently evaluating the impact of this accounting guidance on our consolidated financial statements.

In September 2009, the FASB issued new accounting guidance related to certain revenue arrangements that include software elements. Previously, companies that sold tangible products with more than incidental software were required to apply software revenue recognition guidance. This guidance often delayed revenue recognition for the delivery of the tangible product. Under the new guidance, tangible products that have software components that are essential to the functionality of the tangible product will be excluded from the software revenue recognition guidance. The new guidance will include factors to help companies determine what is essential to the functionality. Software-enabled products will now be subject to other revenue guidance and will likely follow the guidance for multiple deliverable arrangements issued by the FASB in September 2009. The new guidance is to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. If a vendor elects earlier application and the first reporting period of adoption is not the first reporting period in the vendor s fiscal year, the guidance must be applied through retrospective application from the beginning of the vendor s fiscal year and the vendor must disclose the effect of the change to those previously reported periods. The adoption of this accounting guidance will not have an impact on our consolidated financial statements.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 calculation of diluted net income per share excludes all anti-dilutive shares. 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 September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Numerator:				
Net income	$ 492,219	$ 349,736	$ 1,412,282	$ 1,034,191
Denominator:				
Weighted average common shares - basic	1,288,937	1,293,511	1,311,501	1,288,150
Dilutive effect of equity incentive plans	8,547	17,763	10,625	11,129
Weighted average common shares - diluted	1,297,484	1,311,274	1,322,126	1,299,279
Net income per share:				
Basic	$ 0.38	$ 0.27	$ 1.08	$ 0.80
Diluted	$ 0.38	$ 0.27	$ 1.07	$ 0.80
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	102,322	81,225	94,978	105,255

Note 3 Business Combinations

Acquisition of Gmarket Inc.

On June 15, 2009, we acquired 99.0% of the outstanding securities of Gmarket Inc. (Gmarket), a company organized under the laws of the Republic of Korea. We paid $24 per security, net to the holders in cash, through a cash tender offer resulting in a total cash purchase price of approximately $1.2 billion and assumed Gmarket outstanding stock options. Gmarket is a retail ecommerce marketplace in Korea, and is included in our Marketplaces segment. The rationale for acquiring Gmarket was to strengthen our ecommerce business in Korea and provide a platform for expansion throughout Asia.

The fair value of Gmarket s stock options assumed was determined using the Black-Scholes model. The fair value of the non-controlling interest was determined based on the number of shares held by minority securityholders multiplied by the offer price of $24 per security. The following table summarizes the consideration paid for Gmarket (in thousands):

Cash	$ 1,209,433

Assumed stock options	5,361
Fair value of total consideration	1,214,794
Fair value of non-controlling interest	12,174
Total	$ 1,226,968

The purchase price was allocated to the tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill. The fair value assigned to identifiable intangible assets acquired has been determined primarily by using the income approach and variation of the income approach known as the profit allocation method, which discounts expected future cash flows to present value using estimates

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

and assumptions determined by management. Purchased identifiable intangible assets are amortized on a straight-line basis over their respective useful lives. Our preliminary allocation of the purchase price is summarized in the table below (in thousands):

Net tangible assets acquired	$ 50,526
Goodwill	797,946
Trade name	264,604
User base	76,512
Developed technology	33,076
Other intangible assets	4,304
Total	$ 1,226,968

Our estimated useful life of the identifiable intangible assets acquired is three years for developed technology, five years for the trade name and user base and one year for other intangibles. The allocation of the purchase price for the acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available.

Gmarket s financial results have been included in our condensed consolidated statement of income as of June 16, 2009. The amount of revenue and earnings included in the condensed consolidated income statement for the three and nine months ended September 30, 2009 were not material to the respective periods. The noncontrolling ownership interest in Gmarket is included in additional paid-in capital in our condensed consolidated balance sheet as it is not significant. Earnings attributable to noncontrolling interests for the three and nine months ended September 30, 2009 were not significant to the respective periods. The results of operations of Gmarket for periods prior to our acquisition of Gmarket were not material to our results of operations, and accordingly, pro forma results of operations have not been presented. Subsequent to the acquisition date, we acquired additional securities through a subsequent offering period that expired on July 20, 2009 and exchanged options to purchase shares of eBay common stock for outstanding Gmarket options.

Note 4 Skype Assets Held for Sale

On September 1, 2009, we entered into a definitive agreement to sell the share capital of Skype Luxembourg Holdings S.a.r.l., Skype Inc., Camino Networks, Inc. and Sonorit Holdings, A.S. (collectively with their respective subsidiaries, the Skype Companies) to an entity organized and owned by an investment group led by Silver Lake and including the Canada Pension Plan Investment Board, Index Ventures and Andreessen Horowitz (the Buyer). The transaction values Skype at $2.75 billion. Upon completion of the sale, we will hold an approximately 35 percent equity investment in the Buyer, which will be recorded at fair value within long-term investments in our condensed consolidated balance sheet. Mr. Mark Andreessen, a member of our Board of Directors, is a general partner in Andreessen Horowitz, which will own less than five percent of the Buyer. The transaction is expected to close in the fourth quarter of 2009. The amortization of intangible assets held for sale has been suspended.

The major classes of assets and liabilities classified as held for sale are as follows (in thousands):

	September 30, 2009
Assets:	
Current assets	109,929
Non-current assets	1,962,975
Total assets	$ 2,072,904

Liabilities:		
Current liabilities		246,686
Non-current liabilities		53
Total liabilities	$	246,739

Included in the table above within non-current assets is goodwill of approximately $1.9 billion. As part of the sale of Skype, we will recognize a portion of our accumulated foreign currency translation adjustment. We estimate the gain on the pending sale of Skype will be approximately $1.0 billion.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 5 Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and the movements for each of our reportable segments during the nine months ended September 30, 2009 (in thousands):

	December 31, 2008	Goodwill Acquired	Adjustments	September 30, 2009
Reportable segments:				
Marketplaces	$ 3,053,139	$ 797,946	$ 142,690	$ 3,993,775
Payments	2,163,057		(9,124)	2,153,933
Communications (see Note 4)	1,836,562		59,555	1,896,117
	$ 7,052,758	$ 797,946	$ 193,121	$ 8,043,825

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, 2008 and September 30, 2009, the goodwill related to our equity investments, included above, was approximately $27.4 million.

The adjustments to goodwill during the nine months ended September 30, 2009 were due primarily to foreign currency translation.

Goodwill is subject to at least an annual assessment for impairment, applying a fair-value based test. We conducted our annual impairment test as of August 31, 2009 and determined there was no impairment. There were no events or circumstances from that date through September 30, 2009 indicating that a further assessment was necessary.

Intangible Assets

The components of identifiable intangible assets are as follows (in thousands, except years):

	December 31, 2008				September 30, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (years)
Intangible assets:								
Customer lists and user base	$ 756,829	$ (415,238)	$ 341,591	6	$ 852,872	$ (517,530)	$ 335,342	6
Trademarks and trade names	638,930	(393,353)	245,577	5	925,698	(506,042)	419,656	5
Developed technologies	199,893	(111,973)	87,920	3	230,856	(147,330)	83,526	3
All other	126,381	(64,803)	61,578	4	157,504	(86,627)	70,877	4
	$ 1,722,033	$ (985,367)	$ 736,666		$ 2,166,930	$ (1,257,529)	$ 909,401	

As of December 31, 2008, the net carrying amount of intangible assets related to our equity investments included above was approximately $532,500. All of our identifiable intangible assets, with the exception of intangible assets of Skype classified as held for sale, are subject to amortization. Aggregate amortization expense for intangible assets was $66.3 million and $92.2 million for the three months ended September 30, 2008 and 2009, respectively. Aggregate amortization expense for intangible assets was $195.2 million and $253.6 million for the nine months ended September 30, 2008 and 2009, respectively.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Expected future intangible asset amortization from acquisitions completed as of September 30, 2009 is as follows (in thousands):

Fiscal Years:	
2009 (three months ending December 31, 2009)	$ 68,995
2010	227,171
2011	178,717
2012	143,378
2013	119,103
Thereafter	33,074
	$ 770,438

Note 6 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 to evaluate segment performance and the availability of separate financial information. We have three operating segments: Marketplaces, Payments and Communications. For details related to the pending sale of our Communications segment, please see Note 4 Skype Assets Held for Sale.

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

	Three Months Ended September 30, 2008			
	Marketplaces	Payments	Communications	Consolidated
Net revenues from external customers	$ 1,376,853	$ 597,211	$ 143,467	$ 2,117,531
Direct costs	789,109	483,713	105,766	1,378,588
Direct contribution	$ 587,744	$ 113,498	$ 37,701	738,943
Operating expenses and indirect costs of net revenues				214,868
Income from operations				524,075
Interest and other income, net				38,567
Income before income taxes				$ 562,642

	Three Months Ended September 30, 2009			
	Marketplaces	Payments	Communications	Consolidated
Net revenues from external customers	$ 1,364,583	$ 688,063	$ 185,206	$ 2,237,852
Direct costs	790,964	586,265	140,372	1,517,601
Direct contribution	$ 573,619	$ 101,798	$ 44,834	720,251
Operating expenses and indirect costs of net revenues				277,310

Income from operations	442,941
Interest and other expense, net	(4,606)
Income before income taxes	$ 438,335

	Nine Months Ended September 30, 2008			
	Marketplaces	Payments	Communications	Consolidated
Net revenues from external customers	$ 4,319,201	$ 1,780,585	$ 405,629	$ 6,505,415
Direct costs	2,440,797	1,417,231	322,880	4,180,908
Direct contribution	$ 1,878,404	$ 363,354	$ 82,749	2,324,507
Operating expenses and indirect costs of net revenues				702,288
Income from operations				1,622,219
Interest and other income, net				88,077
Income before income taxes				$ 1,710,296

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Nine Months Ended September 30, 2009			
	Marketplaces	Payments	Communications	Consolidated
Net revenues from external customers	$ 3,847,731	$ 2,000,322	$ 508,377	$ 6,356,430
Direct costs	2,186,923	1,678,788	387,152	4,252,863
Direct contribution	$ 1,660,808	$ 321,534	$ 121,225	2,103,567
Operating expenses and indirect costs of net revenues				826,173
Income from operations				1,277,394
Interest and other income, net				8,957
Income before income taxes				$ 1,286,351

Direct contribution consists of net revenues from external customers less direct costs. Direct costs include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses, such as advertising and marketing programs, customer support expenses, bank charges, internal interest charges related to Bill Me Later, site operations expenses, product development expenses, billing operations, certain technology and facilities expenses, transaction expenses and provision for transaction and loan losses. Expenses such as our corporate center costs (consisting of certain costs such as corporate management, human resources, finance and legal), amortization of intangible assets, restructuring charges and stock-based compensation expense are excluded from direct costs as they are not included in the measurement of segment performance.

Note 7 Fair Value Measurement of Assets and Liabilities

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 (in thousands):

Description	Balance as of September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents:			
Bank deposits and money market funds	$ 2,557,859	$ 2,557,859	$
Total cash and cash equivalents	2,557,859	2,557,859	
Short-term investments:			
Restricted cash	29,745	29,745	
Equity instruments	312,521	312,521	
Corporate debt securities	13,782		13,782
Time deposits	245,395		245,395
Total short-term investments	601,443	342,266	259,177
Derivatives	10,243		10,243
Long-term restricted cash	1,162	1,162	

Corporate debt securities		396,744				396,744
Long-term time deposits		5,132				5,132
Total financial assets	$	3,572,583	$	2,901,287	$	671,296
Liabilities:						
Derivatives	$	12,030	$		$	12,030

Our financial assets and liabilities are valued using market prices on both active markets (level 1) and less active markets (level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily-available pricing sources for comparable instruments. As of

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

September 30, 2009, we did not have any assets or liabilities without observable market values that would require a high level of judgment to determine fair value (level 3). Our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as equity prices, interest rate yield curves, option volatility and currency rates. Our derivative instruments are short-term in nature, typically one month to one year in duration. Cash and cash equivalents are short-term, highly liquid investments with original or remaining maturities of three months or less when purchased.

As of September 30, 2009, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

In Europe, we have a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals from this financial institution based upon our aggregate operating cash balances held in Europe within the same financial institution (Aggregate Cash Deposits). This arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income. As of September 30, 2009, we had a total of $1.3 billion in cash withdrawals offsetting our $1.3 billion in Aggregate Cash Deposits held within the same financial institution under this cash pooling arrangement.

Our financial instruments, including accounts receivable, loans and interest receivable, funds receivable, customer accounts, accounts payable, funds payable, amounts due to customers and borrowings under our credit agreement, are carried at cost, which approximates their fair value because of the short-term nature of these instruments.

Note 8 Derivative Instruments

We have significant international revenues as well as costs denominated in foreign currencies, subjecting us to foreign currency risk. We purchase foreign currency exchange contracts that qualify as cash flow hedges, generally with maturities of 12 months or less, to reduce the volatility of cash flows primarily related to forecasted revenue and intercompany transactions denominated in certain foreign currencies. All outstanding derivatives that qualify for hedge accounting are recognized on the balance sheet at fair value, and changes in their fair value are recorded in accumulated other comprehensive income (loss) until the underlying forecasted transaction occurs. The effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and is subsequently reclassified into the financial statement line item in which the hedged item is recorded in the same period the forecasted transaction affects earnings. We also hedge our exposure to foreign currency denominated monetary assets and liabilities with foreign currency contracts. Since these derivatives hedge existing exposures that are denominated in foreign currencies, the contracts do not qualify for hedge accounting. Accordingly, these outstanding non-designated derivatives are recognized on the balance sheet at fair value and changes in fair value from these contracts are recorded in interest and other income (expense), net, in the condensed consolidated statement of income. Our derivatives program is not designed or operated for trading or speculative purposes.

Our derivative instruments expose us to credit risk to the extent that our counterparties may be unable to meet the terms of the agreements. We seek to mitigate this risk by limiting our counterparties to major financial institutions and by spreading the risk across several major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis.

Fair Value of Derivative Contracts: Derivative instruments are reported at fair value as follows (in thousands):

	Derivative Assets Reported in Other Current Assets September 30,	Derivative Liabilities Reported in Other Current Liabilities September 30,

	2009	2009
Foreign exchange contracts designated as cash flow hedges	$ 4,643	$ 10,749
Foreign exchange contracts not designated as hedging instruments	5,600	1,281
Total fair value of derivative instruments	$ 10,243	$ 12,030

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Effect of Derivative Contracts on Accumulated Other Comprehensive Income (Loss): The following table represents the activity of derivative contracts which qualify for hedge accounting as of December 31, 2008 and September 30, 2009, and the impact of designated derivative contracts on accumulated other comprehensive income for the nine months ended September 30, 2009 (in thousands):

	December 31, 2008	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Amount of gain (loss) reclassified from accumulated other comprehensive income to income (effective portion)	September 30, 2009
Foreign exchange contracts designated as cash flow hedges	$ 40,352	$ (66,706)	$ 20,248	$ (6,106)

Effect of Derivative Contracts on Condensed Consolidated Statement of Income: The following table provides the location in our financial statements of the recognized gains or losses related to our derivative instruments (in thousands):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	$ (1,784)	$ 20,248
Foreign exchanges contracts not designated as hedging instruments recognized in interest and other income (expense), net	2,104	10,570
Total gain recognized from derivative contracts in the consolidated statement of income	$ 320	$ 30,818

Note 9 Commitments and Contingencies

Credit Agreement

As of September 30, 2009, we had $200.0 million outstanding and approximately $1.6 billion available under our credit agreement. The interest rate at September 30, 2009 was 0.45%. As of September 30, 2009, we were in compliance with the financial covenants associated with the credit agreement. Lehman Brothers Commercial Bank was a participating lender in our $2.0 billion credit agreement. As a result of the bankruptcy of its parent company, the availability under our credit agreement was effectively reduced by Lehman s commitment of $160.0 million.

Litigation and Other Legal Matters

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. Among other things, 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. Around 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 alleged that we had interfered with the selective distribution network the plaintiffs established in France and the European Union by allowing third parties to post listings offering genuine perfumes and cosmetics for sale on our websites. In June 2008, the Paris Court of Commerce ruled that eBay and eBay International AG were liable for failing to prevent the sale of counterfeit items on its websites that traded on plaintiffs brand names and for interfering with the plaintiffs selective distribution network. The court awarded plaintiffs approximately EUR 38.6 million in damages and issued an injunction (enforceable by daily fines of up to EUR 100,000) prohibiting all sales of perfumes and cosmetics bearing the Dior, Guerlain, Givenchy and Kenzo brands over all worldwide eBay sites to the extent that they are accessible from France. A hearing took place in September 2009 regarding our compliance with the injunction

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

and a decision is expected in late 2009. We have taken measures to comply with the injunction and have appealed these rulings. However, these and similar suits may force us to modify our business practices, which could lower our revenue, increase our costs, or make our websites less convenient to our customers. Any such results could materially harm our business. Other luxury brand owners have also filed suit against us or have threatened to do so, seeking to hold us liable for, among other things, alleged counterfeit items listed on our websites by third parties, for tester and other not for resale consumer products listed on our websites by third parties, for the alleged misuse of trademarks in listings, for alleged violations of selective distribution channel laws, for alleged violations of parallel import laws, for alleged non-compliance of consumer protection laws or in connection with paid search advertisements. We continue to believe that we have meritorious defenses to these suits and intend to defend ourselves vigorously.

In May 2009, the U.K. High Court of Justice ruled in the case filed by L Oréal SA, Lancôme Parfums et Beauté & Cie, Laboratoire Garnier & Cie and L Oréal (UK) Ltd v. eBay International AG, other eBay companies, and several eBay sellers (No. HC07CO1978) that eBay was not jointly liable with the seller co-defendants as a joint tortfeasor, and indicated that it would certify to the European Court of Justice questions of liability for the use of L Oreal trademarks, hosting liability, and the scope of a possible injunction against intermediaries. The U.K. High Court of Justice has released its certification request to the European Court of Justice. The case was originally filed in July 2007. L Oréal s complaint alleged that we were jointly liable for trademark infringement for the actions of the sellers who allegedly sold counterfeit goods, parallel imports and testers (not for re-sale products). Additionally, L Oréal claimed that eBay s use of L Oréal brands on its website, in its search engine and in sponsored links, and purchase of L Oréal trademarks as keywords, constitute trademark infringement. The suit sought an injunction preventing future infringement, full disclosure of the identity of all past and present sellers of infringing L Oréal goods, and a declaration that our Verified Rights Owner (VeRO) program as currently operated was insufficient to prevent such infringement. Other damages claimed were to be specified after the liability stage of the proceedings.

In July 2009, the U.S. Second Circuit Court of Appeals heard arguments in the Tiffany v. eBay matter which is on appeal following a decision by the trial court in favor of eBay in July 2008. In June 2004, Tiffany (NJ) Inc. and Tiffany & Co. filed a lawsuit in the U.S. District Court for the Southern District of New York (No. 04 Civ. 4607 (NRB)) claiming that eBay was liable for contributory trademark infringement, false advertising, unfair competition and various related claims based on the listing of alleged counterfeit Tiffany silver jewelry on the eBay website by third parties. The suit sought an injunction, lost profits, punitive damages and attorneys fees. A bench trial took place in November 2007 and in a ruling in July 2008, the trial court rejected Tiffany s claims, finding that the burden of enforcing trademarks is on the trademark owner and that eBay s anti-counterfeiting efforts are sufficient under the law. In an appeal filed in August 2008, Tiffany argued that generalized knowledge of alleged counterfeiting should suffice to hold eBay liable for counterfeit Tiffany items sold by third parties on its website. The Second Circuit s opinion is expected in late 2009.

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 have completed claim construction briefing and attended a pre-trial conference hearing. The claim construction hearing date has been set for October 2009. The trial date is not yet set. The U.S. Patent and Trademark Office has accepted reexamination on all five Net2Phone patents that are the subject of the lawsuit. 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 and its wholly owned subsidiary PayPal monopolized markets through various anticompetitive acts and tying arrangements. The plaintiff alleged claims under sections 1 and 2 of the Sherman Act, as well as related state law claims. 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. The complaint seeks treble damages and an injunction. In 2007, the case was consolidated with other similar lawsuits (No. 07-CV-01882JF). In June 2007, we filed a motion to dismiss the complaint. In March 2008, the court granted the motion to dismiss the tying claims with leave to amend and denied the motion with respect to the monopolization claims. Plaintiffs subsequently decided not to refile the tying claims. The class certification motion was heard by the court in October 2009. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In October 2007, PartsRiver filed a lawsuit in the Eastern District of Texas (No. 2-07CV-440-DF) alleging that eBay, Microsoft, Yahoo!, Shopzilla, PriceGrabber and PriceRunner infringed its patent relating to search methods. The suit seeks an injunction against continuing infringement, unspecified damages, and interest, costs, and fees. The U.S. District Court for the Eastern District of Texas has granted defendants motion to transfer venue and moved the case to the U.S. District Court for the Northern District of California. In August 2009, the District Court granted our motion for summary judgment and ruled that the PartsRiver patent was invalid based on a finding that it was on sale more than a year before the filing date of the patent. PartsRiver is appealing the District Court s decision. We intend to vigorously oppose PartsRiver s appeal.

eBay s Korean subsidiary, IAC, has notified a majority of its approximately 20 million users of a January 2008 data breach involving personally identifiable information including name, address, resident registration number and some transaction and refund data (but not including credit card information or real time banking information). Approximately 144,000 users have sued IAC over this breach in several lawsuits in Korean courts and we expect more to do so in the future. Trial for a group of four representative suits began in August 2009, and trial for a group of 23 other suits began in September 2009. These trials are expected to be completed in November 2009. There is some precedent in Korea for a court to grant consolation money for data breaches without a specific finding of harm from the breach. Such precedents have involved payments of up to approximately $200 per user. IAC intends to vigorously defend itself in these lawsuits. In December 2008, the Korea Consumer Agency (KCA) made a non-binding recommendation that IAC make payments of 50,000-100,000 Korean won (approximately $40-$80) to users who had complained to it as a result of such breach. IAC rejected this non-binding recommendation and did not make any payments, and this KCA process has ended even though the complainants may still file lawsuits in court.

Skype licenses peer-to-peer communication technology from Joltid Limited pursuant to a license agreement between the parties. The parties had been discussing a dispute over the license. In March 2009, Skype Technologies S.A. filed a claim in the English High Court of Justice (No. HC09C00756) against Joltid Limited. Following the filing of the claim, Joltid purported to terminate the license agreement between the parties. In particular, Joltid has alleged that Skype should not possess, use or modify certain software source code and that, by doing so, and by disclosing such code in certain U.S. patent cases pursuant to orders from U.S. courts, Skype has breached the license agreement. Joltid has brought a counterclaim alleging that Skype has repudiated the license agreement, infringed Joltid s copyright and misused confidential information. On the basis of, among other things, the parties mutual dealings since the execution of the license agreement, Skype asked the English High Court for declaratory relief, including findings that Skype is not in breach of the license agreement, that Joltid s notice of breach and subsequent notice of termination are invalid, and that Joltid has certain indemnity obligations in relation to the U.S. patent proceedings. Trial is currently scheduled for June 2010. Although Skype is confident of its legal position, as with any litigation, there is the possibility of an adverse result if the matter is not resolved through negotiation. Skype has begun to develop alternative software to that licensed through Joltid. However, such software development may not be successful and may result in loss of functionality or customers even if successful. If Skype were to lose the right to use the Joltid software as the result of the litigation, and if alternative software were not available, Skype would be severely and adversely affected and the continued operation of Skype s business as currently conducted would likely not be possible.

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 and Payments 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 become subject to laws in 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. 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.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 Stock-Based Plans

Stock Option Exchange Program

On August 10, 2009, the Company launched a one-time stock option exchange program (the Program) pursuant to which eligible employees were able to exchange certain outstanding stock options with an exercise price greater than or equal to $27.01 per share, a grant date on or before August 10, 2008 and an expiration date after September 11, 2010, for a lesser amount of new restricted stock units (RSUs) or, under certain circumstances, for new stock options or a cash payment. Our named executive officers and members of our Board of Directors were not eligible to participate in the Program. The Program expired on September 11, 2009. As a result of the Program, 42.6 million shares of our common stock were accepted for exchange (representing approximately 75% of the total options eligible for exchange). All surrendered options were cancelled effective as of the expiration of the Program, and in exchange for those options, we issued a total of approximately 5.0 million new RSUs. The number of new stock options granted, and the amount of cash payments issued, in exchange for outstanding stock options were insignificant. In general, the new RSUs have a vesting period that is at least one year longer than the original vesting period for the corresponding exchanged option grant. The Program did not result in any significant incremental stock-based compensation expense.

Stock Options

The following table summarizes stock option activity for the nine-month period ended September 30, 2009 (in thousands):

	Shares
Outstanding at January 1, 2009	116,060
Granted and assumed	9,347
Exercised	(4,336)
Options exchanged in connection with the stock option exchange program	(42,630)
Forfeited/expired/cancelled	(19,801)
Outstanding at September 30, 2009	58,640

Stock options granted under our equity incentive plans generally vest 25% one year from the date of grant (for new hires) and 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, in either case based on the recipient s continuing service to eBay, and generally expire seven to 10 years from the date of grant. The weighted average exercise price of stock options granted and assumed during the period was $12.64 per share and the related weighted average grant date fair value was $4.36 per share.

Restricted Stock Units

The following table summarizes RSU activity for the nine-month period ended September 30, 2009 (in thousands):

	Units
Outstanding at January 1, 2009	26,821
Awarded	22,916
Awarded in connection with the stock option exchange program	5,047
Vested	(6,387)
Forfeited	(3,017)

Outstanding at September 30, 2009	45,380

In general, RSUs vest over four years at the rate of 25% a year on each anniversary of the grant date, subject to the recipient s continuing service to eBay. The cost of RSUs is determined using the fair value of our common stock on the date of grant. The weighted average grant date fair value for RSUs awarded during the period was $11.21 per share, excluding those RSUs awarded in connection with the one-time stock option exchange program.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Stock-based Compensation Expense

The impact on our results of operations of recording stock-based compensation expense for the three and nine months ended September 30, 2008 and 2009 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Cost of net revenues	$ 10,395	$ 11,134	$ 31,908	$ 37,614
Sales and marketing	23,745	28,265	72,096	91,154
Product development	23,458	22,795	71,627	78,546
General and administrative	32,653	30,296	93,850	95,455
Total stock-based compensation expense	$ 90,251	$ 92,490	$ 269,481	$ 302,769

Total stock-based compensation expense included in capitalized development costs was $3.4 million and $2.6 million for the three months ended September 30, 2008 and 2009, respectively. Total stock-based compensation expense included in capitalized development costs was $8.2 million and $7.0 million for the nine months ended September 30, 2008 and 2009, respectively.

Valuation Assumptions

We calculated the fair value of each stock option award on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for the three and nine months ended September 30, 2008 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Risk-free interest rates	2.9%	2.0%	2.3%	1.6%
Expected lives (in years)	3.9	3.7	3.8	3.8
Dividend yield	0%	0%	0%	0%
Expected volatility	40%	43%	34%	47%

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.

Note 11 Restructuring

2009 Customer Service Consolidation

In 2009, we began the consolidation of certain customer service facilities in North America and Europe to streamline our operations and deliver better and more efficient customer support to our users. As previously announced, the consolidation will potentially impact approximately 1,100 employees. We estimate that we will incur aggregate costs of $45.0 million to $55.0 million. During the third quarter and first nine months of 2009, we incurred restructuring charges of $11.1 million and $25.5 million, respectively, in connection with this consolidation. We expect to complete these activities by mid-2010.

2008 Restructuring Plan

In 2008, we implemented a strategic reduction of our existing global workforce by approximately 800 employees worldwide to simplify and streamline our organization and strengthen the overall competitiveness of our existing businesses. During the third quarter and first nine months of 2009, we incurred $1.6 million and $11.5 million, respectively, in restructuring charges related to this plan. Since the inception of the plan we have incurred $60.6 million in restructuring related charges. The restructuring activities in connection with this plan are substantially complete.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Summary of All Restructuring Plans

The following table summarizes the restructuring and other related costs by segment recognized during the third quarter and first nine months of 2009 (in thousands):

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	Employee Severance and Benefits	Facilities	Total	Employee Severance and Benefits	Facilities	Total
Marketplaces	$ 6,617	$ 6,062	$ 12,679	$ 28,901	$ 7,836	$ 36,737
Payments	(3)	(3)	(6)	190	10	200
	$ 6,614	$ 6,059	$ 12,673	$ 29,091	$ 7,846	$ 36,937

The following table summarizes the restructuring activity during the nine months ended September 30, 2009 (in thousands):

	Employee Severance and Benefits	Facilities	Total
Accrued liability as of January 1, 2009	$ 14,200	$ 946	$ 15,146
Charges	29,091	7,846	36,937
Payments	(32,370)	(1,404)	(33,774)
Non-cash items		(3,696)	(3,696)
Adjustment	(63)	(639)	(702)
Accrued liability as of September 30, 2009	$ 10,858	$ 3,053	$ 13,911

In the table, above non-cash items pertain to the write-down of assets to their estimated fair value. Adjustments reflect the impact of foreign currency translation.

Note 12 Income Taxes

The following table reflects changes in unrecognized tax benefits for the nine-month period ended September 30, 2009 (in thousands):

Gross amounts of unrecognized tax benefits as of January 1, 2009	$ 701,374
Increases in unrecognized tax benefits for tax positions taken during the period	87,737
Increases in unrecognized tax benefits for prior period tax positions	38,524
Gross amounts of unrecognized tax benefits as of September 30, 2009	$ 827,635

As of September 30, 2009, our liabilities for unrecognized tax benefits were 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, the impact from acquisitions and the impact of tax rulings made during the period affecting our tax positions. Over the next 12 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 provision for income taxes. The amount of interest and penalties accrued at September 30, 2009 was approximately $79.7 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 to 2008 tax years. The material jurisdictions in which we are subject to potential examination by tax authorities for tax years after 2002 include, among others, the U.S., California, France, Germany, Italy, Korea, Switzerland and Singapore.

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business or financial results, new features or services, or management strategies). You can identify these forward-looking statements by words such as may, will, would, should, could, expect, anticipate, believe, estimate, intend, plan and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in Part II Item 1A: Risk Factors, of this Quarterly Report on Form 10-Q 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, or the SEC. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such 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

We operate three primary business segments: Marketplaces, Payments and Communications. Our Marketplaces segment provides the infrastructure to enable global online commerce on a variety of platforms, including the traditional eBay.com platform, and our other online platforms, such as our online classifieds businesses, our secondary tickets marketplace (StubHub), our online shopping comparison website (Shopping.com), our apartment listing service platform (Rent.com), as well as our fixed price media marketplace (Half.com). Our Payments segment is comprised of our online payment solutions PayPal (which enables individuals and businesses to securely, easily and quickly send and receive payments online in approximately 190 markets worldwide) and Bill Me Later (which we acquired in November 2008 and which enables online U.S. merchants to offer, and U.S. consumers to obtain, transactional credit at the point of sale). Our Communications segment, which consists of Skype, enables Internet communications between Skype users and provides low-cost connectivity to traditional fixed-line and mobile telephones. On September 1, 2009 we entered into a definitive agreement to sell the share capital of Skype Luxembourg Holdings S.a.r.l., Skype Inc., Camino Networks, Inc. and Sonorit Holdings, A.S. (collectively with their respective subsidiaries, the Skype Companies) to an entity organized and owned by an investment group led by Silver Lake that includes the Canada Pension Plan Investment Board, Index Ventures and Andreessen Horowitz (the Buyer). Upon completion of the sale, we will hold an approximately 35 percent equity investment in the Buyer. For further details see Note 4 Skype Assets Held for Sale to the condensed consolidated financial statements included in this report.

For the three months ended September 30, 2009, net revenues increased 6% to $2.2 billion compared to the same period in the prior year due primarily to the continued growth in PayPal, Skype and our classifieds business as well as growth in eBay s fixed price format. Our operating margin decreased five percentage points to 19.8% compared to the same period of the prior year, due primarily to dilution from our recent acquisitions, including Bill Me Later, foreign currency movements against the U.S. dollar and a shift to faster growing, lower margin businesses. Our Marketplaces, Payments and Communications segment margins decreased one percentage point, four percentage points, and two percentage points, respectively, on a year over year basis. Our diluted earnings per share decreased $0.11, to $0.27, compared to the same period of the prior year, driven primarily by a lower operating margin, lower yield on cash balances and a higher effective tax rate. For the three months ended September 30, 2009, we generated cash flow from operations of approximately $738.2 million.

Some key operating metrics that members of our senior management regularly review to evaluate our financial results include gross merchandise volume (GMV), number of sold items, net total payment volume (TPV), net number of payments, SkypeOut Minutes, free cash flow, and revenue, excluding acquisitions and foreign currency impact.

Outlook

We expect that net revenues in the fourth quarter of 2009 will be moderately stronger than our performance in the third quarter of 2009. Net revenues in the fourth quarter of 2009 are expected to benefit from GMV and TPV momentum and the holiday shopping season. Our net revenue expectations include Skype revenues through an assumed mid-quarter close of the pending sale transaction. We expect a significant increase in net income in the fourth quarter of 2009 due primarily to the estimated $1.0 billion gain on the pending sale of Skype as well as continued productivity gains realized from our operational excellence initiatives, partially offset by investments in improving our user experience.

Results of Operations

Summary of Net Revenues

Net transaction revenues from our Marketplaces segment are derived primarily from listing and final value fees paid by sellers. For our Payments segment, net transaction revenues are generated primarily by fees paid by merchants for payment processing services. Our Communications segment net transaction revenues are generated primarily from fees charged to users to connect Skype s Internet communications products to traditional fixed-line and mobile telephones. These fees are charged on a per-minute basis or on a subscription basis, and we refer to these minutes as SkypeOut minutes.

Marketing services and other revenues are generated from all three of our business segments. Our marketing services are derived principally from the sale of advertisements, revenue sharing arrangements, classifieds fees and lead referral fees. Our other revenues are derived principally from interest earned from banks on certain PayPal customer account balances, interest and fees earned on the Bill Me Later loan portfolio and from contractual arrangements with third parties that provide services to our users. Revenues are attributed to U.S. and international geographies primarily based upon the country in which the seller, payment recipient, customer, Skype user s Internet protocol address, online property that generates advertising, or other service provider, as the case may be, is located.

We generate the majority of our revenue internationally and, accordingly, fluctuations in foreign currency exchange rates impact our results of operations. We have a foreign exchange risk management program that is designed to reduce our exposure to fluctuations in foreign currencies; however, this program will not fully offset the effect of those fluctuations on our revenues and earnings. For the three months ended September 30, 2009, foreign currency movements against the U.S. dollar negatively impacted net revenues by approximately $96.7 million compared to the same period of the prior year. On a business segment basis for the three months ended September 30, 2009, foreign currency movements against the U.S. dollar negatively impacted Marketplaces, Payments and Communications net revenues by approximately $66.2 million, $20.8 million and $9.7 million, respectively, compared to the same period of the prior year. For the three months ended September 30, 2009, Payments net revenues were negatively impacted by hedging activities. For the nine months ended September 30, 2009, foreign currency movements against the U.S. dollar negatively impacted net revenues by approximately $463.9 million compared to the same period of the prior year. On a business segment basis for the nine months ended September 30, 2009, foreign currency movements against the U.S. dollar negatively impacted Marketplaces, Payments and Communications net revenues by approximately $331.9 million, $76.2 million and $55.8 million, respectively, compared to the same period of the prior year. For the nine months ended September 30, 2009, Payments net revenues were positively impacted by hedging activities.

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

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
	(In thousands, except percentages)					
Net Revenues by Type:						
Net transaction revenues						
Marketplaces	$ 1,163,890	$ 1,151,361	(1)%	$ 3,664,830	$ 3,242,105	(12)%
Payments	576,302	649,159	13%	1,716,309	1,884,154	10%
Communications	137,201	172,957	26%	387,143	471,856	22%
Total net transaction revenues	1,877,393	1,973,477	5%	5,768,282	5,598,115	(3)%
Marketing services and other revenues						
Marketplaces	212,963	213,222	0%	654,371	605,626	(7)%
Payments	20,909	38,904	86%	64,276	116,168	81%
Communications	6,266	12,249	95%	18,486	36,521	98%
Total marketing services and other revenues	240,138	264,375	10%	737,133	758,315	3%
Total net revenues	$ 2,117,531	$ 2,237,852	6%	$ 6,505,415	$ 6,356,430	(2)%
Net Revenues by Segment:						
Marketplaces	$ 1,376,853	$ 1,364,583	(1)%	$ 4,319,201	$ 3,847,731	(11)%
Payments	597,211	688,063	15%	1,780,585	2,000,322	12%
Communications	143,467	185,206	29%	405,629	508,377	25%
Total net revenues	$ 2,117,531	$ 2,237,852	6%	$ 6,505,415	$ 6,356,430	(2)%
Net Revenues by Geography:						
U.S.	$ 1,001,637	$ 1,013,477	1%	$ 3,028,098	$ 2,941,758	(3)%
International	1,115,894	1,224,375	10%	3,477,317	3,414,672	(2)%
Total net revenues	$ 2,117,531	$ 2,237,852	6%	$ 6,505,415	$ 6,356,430	(2)%

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
	(In millions, except percentages)					
Supplemental Operating Data:						
Marketplaces Segment:						
GMV excluding vehicles (1)	$ 11,361	$ 12,192	7%	$ 36,530	$ 34,116	(7)%
Vehicles GMV (2)	2,922	2,386	(18)%	9,473	6,760	(29)%
Total GMV (3)	$ 14,283	$ 14,578	2%	$ 46,003	$ 40,876	(11)%
Payments Segment:						
Net total payment volume (4)	$ 14,812	$ 17,686	19%	$ 44,159	$ 50,250	14%
Communications Segment:						
Registered users (5)	370.2	520.8	41%	370.2	520.8	41%
SkypeOut						
Minutes (6)	2,160.0	3,102.7	44%	5,786.4	8,942.7	55%

(1) Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the quarter, regardless of whether the buyer and seller actually consummated the transaction, excluding vehicles gross merchandise volume.

(2) Total value of all successfully closed vehicle transactions between users on eBay Marketplaces trading platforms during the quarter, regardless of whether the buyer and seller actually consummated the transaction.

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

(4) Total dollar volume of payments, net of payment reversals, successfully completed through our payments network or on Bill Me Later accounts during the period, excluding the payment gateway business.

(5) Cumulative number of unique user accounts, which includes, among other things, users who may have registered via non-Skype based websites and users that have more than one account.

(6) Cumulative number of minutes that Skype users were connected with Skype s Internet communications products to traditional fixed-line and mobile telephones.

Seasonality

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

	Quarter Ended			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands, except percentages)			
2007				
Net revenues	$ 1,768,074	$ 1,834,429	$ 1,889,220	$ 2,180,606
Percent change from prior quarter	3%	4%	3%	15%
2008				
Net revenues	$ 2,192,223	$ 2,195,661	$ 2,117,531	$ 2,035,846
Percent change from prior quarter	1%	0%	(4)%	(4)%
2009				
Net revenues	$ 2,020,586	$ 2,097,992	$ 2,237,852	N/A
Percent change from prior quarter	(1)%	4%	7%	

We expect transaction activity patterns on our websites to increasingly mirror general consumer buying patterns.

Marketplaces Net Transaction Revenues

Marketplaces net transaction revenues decreased $12.5 million, or 1%, during the third quarter of 2009 compared to the same period of the prior year due primarily to an increase in seller discounts and buyer loyalty programs (recorded as contra-revenue), partially offset by a 7% increase in our GMV (excluding vehicles) over the same period due to the acquisition of Gmarket (acquired June 2009). GMV generated by our largest category, vehicles, declined 18% during the third quarter of 2009, which was reflective of the decline in the automotive market generally as well as a shift in consumer preference toward online automotive classified listings. Growth rates for both revenue and GMV during the third quarter of 2009 were negatively impacted by foreign currency movements against the U.S. dollar.

Marketplaces net transaction revenues decreased $422.7 million or 12%, during the first nine months of 2009 compared to the same period of the prior year due to a 7% decrease in our GMV (excluding vehicles) over the same period, as well as an increase in seller discounts and buyer loyalty programs (recorded as contra-revenue). GMV generated by our largest category, vehicles, declined 28% during the first nine months of 2009, which was reflective of the decline in the automotive market generally as well as a shift in consumer preference toward online automotive classified listings. The decrease in both revenue and GMV was attributable to a stronger dollar and difficult macroeconomic conditions.

Marketplaces net transaction revenues earned internationally totaled $623.5 million and $1.7 billion during the third quarter and the first nine months of 2009, respectively, representing 54% and 53% of total Marketplaces net transaction revenues during those respective periods. Marketplaces net transaction revenues earned internationally totaled $601.1 million and $2.0 billion during the third quarter and the first nine months of 2008, respectively, and represented 52% and 54% of total Marketplaces net transaction revenues during those respective periods.

Payments Net Transaction Revenues

Payments net transaction revenues increased $72.9 million and $167.8 million, or 13% and 10%, during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year. The increases are due primarily to growth in net TPV of 19% and 14% during the third quarter and first nine months of 2009, respectively, compared to the same period of the prior year, partially offset by lower take rates due primarily to a shift in business and geographic mix, including a faster growing Merchant Services component. The increase in net TPV during the third quarter and first nine months of 2009 was due to growth in consumer and merchant adoption of PayPal and the inclusion of Bill Me Later (acquired November 2008). Our Merchant Services net TPV experienced 31% and 28% growth during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year and represented 56% and 55% of PayPal s net TPV during those respective periods. The increase in our Merchant Services business is due primarily to an increased number of online merchants offering PayPal as a payment option.

Payments net transaction revenues earned internationally totaled $300.6 million and $853.8 million during the third quarter and first nine months of 2009, respectively, representing 46% and 45% of total Payments net transaction revenues during those respective periods. Payments net transaction revenues earned internationally totaled $256.6 million and $753.8 million during the third quarter and first nine months of 2008, respectively, and represented 45% and 44% of total Payments net transaction revenues during those respective periods.

Communications Net Transaction Revenues

Communications net transaction revenues increased $35.8 million and $84.7 million, or 26% and 22%, during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year. The increase in net transaction revenues was due primarily to a 44% and 55% increase in SkypeOut minutes during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year. The increase in SkypeOut minutes during the third quarter and first nine months of 2009 was due primarily to the growth in the cumulative number of Skype registered users to 520.8 million at September 30, 2009 from 370.2 million at September 30, 2008. We believe that the growth in Skype registered users was due primarily to its marketing activities, ongoing viral adoption (whereby users encourage others to become users), strategic partnership initiatives and the expansion of its product offerings.

Net transaction revenues from Communications earned internationally totaled $142.9 million and $388.2 million during the third quarter and first nine months of 2009, respectively, representing 83% and 82% of total Communications net transaction revenues in those respective periods. Communications net transaction revenues earned internationally totaled $113.0 million and $321.6 million in the third quarter and first nine months of 2008, respectively, and represented 82% and 83% of total Communications net transaction revenues in those respective periods. Communications net transaction revenues are primarily generated in Europe.

Marketing Services and Other Revenues

Marketing services and other revenues increased $24.2 million, or 10% during the third quarter of 2009, compared to the same period of the prior year, and represented 12% of total net revenues during the third quarter of 2009 compared to 11% of total net revenues during the same period of the prior year. The increase in marketing services and other revenues during the third quarter of 2009 was due primarily to income generated from our Bill Me Later loan portfolio (acquired November 2008) and an increase in our Classifieds business, primarily attributable to Den Blå Avis and BilBasen (acquired October 2008). These increases were partially offset by a decrease in Shopping.com revenue, a decline in interest income earned on certain PayPal customer account balances resulting primarily from decreased interest rates, and a general market decline in advertising.

Marketing services and other revenues increased $21.2 million, or 3%, during the first nine months of 2009 compared to the same period of the prior year, and represented 12% of total net revenues during the first nine months of 2009, compared to 11% of total net revenues during the same period of the prior year. The increase in marketing services and other revenues during the first nine months of 2009 was due primarily to income generated from our Bill Me Later loan portfolio (acquired November 2008) and an increase in our Classifieds business, primarily attributable to Den Blå Avis and BilBasen (acquired October 2008). These increases were partially offset by a decrease in Shopping.com revenue related to the impact of rule changes made in the third quarter of 2008 by third-party search engines that adversely affected click-though traffic to retailers from our Shopping.com website and reduced associated fees, as well as a decline in interest income earned on certain PayPal customer account balances resulting primarily from decreased interest rates.

Summary of Cost of Net Revenues

The following table summarizes changes in cost of net revenues:

	Three Months Ended				Nine Months Ended			
	September 30,		Change from 2008 to 2009		September 30,		Change from 2008 to 2009	
	2008	2009	in Dollars	in %	2008	2009	in Dollars	in %
	(In thousands, except percentages)							
Cost of net revenues:								
Marketplaces	$ 238,810	$ 255,083	$ 16,273	7%	$ 681,662	$ 692,515	$ 10,853	2%
As a percentage of total Marketplaces net revenues	17.3%	18.7%			15.8%	18.0%		
Payments	253,785	302,971	49,186	19%	759,045	873,113	114,068	15%
As a percentage of total Payments net revenues	42.5%	44.0%			42.6%	43.6%		
Communications	68,368	85,854	17,486	26%	207,771	243,439	35,668	17%
As a percentage of total Communications net revenues	47.7%	46.4%			51.2%	47.9%		
Total cost of net revenues	$ 560,963	$ 643,908	$ 82,945	15%	$ 1,648,478	$ 1,809,067	$ 160,589	10%

As a percentage of net revenues	26.5%	28.8%	25.3%	28.5%

Cost of net revenues consists primarily of costs associated with payment processing, customer support and site operations and Skype call termination costs. Significant components of these costs include bank transaction fees, credit card interchange fees, assessments, Bill Me Later related interest charges, employee compensation, contractor costs, facilities costs, depreciation of equipment and amortization expense.

Marketplaces cost of net revenues increased $16.3 million and $10.9 million, or 7% and 2%, during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year. The increase during the third quarter of 2009 was due primarily to costs attributable to Gmarket (acquired June 2009), partially offset by cost savings in connection with our restructuring activities. Marketplaces cost of net revenues during the first nine months of 2009 did not materially change from the same period in the prior year. Marketplaces cost of net revenues increased as a percentage of Marketplaces net revenues during the first nine months of 2009 due primarily to the impact of foreign currency movements on revenues, pricing discounts and the growth of lower margin Marketplaces businesses.

Payments cost of net revenues increased $49.2 million and $114.1 million, or 19% and 15%, during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year. The increase in cost of net revenues was primarily due to costs attributable to Bill Me Later (acquired November 2008) as well as the impact from our growth in net TPV. Cost of net revenues as a percentage of Payments net revenues increased during the third quarter and first nine months of 2009 compared to the same periods of the prior year due primarily to the impact of foreign currency movements on revenues and increased investment in our site operations, partially offset by a more favorable geographic and payment processor mix.

Communications cost of net revenues increased $17.5 million and $35.7 million, or 26% and 17%, during the third quarter and first nine months of 2009, respectively, compared to the same periods of the prior year. The increase in cost of net revenues during both periods was due primarily to an increase in call termination costs, customer support and site operation costs to support the increase in SkypeOut minutes. Cost of net revenues decreased as a percentage of Communications net revenues due primarily to higher volume and revenue mix.

Summary of Operating Expenses, Non-Operating Items and Provision for Income Taxes

The following table summarizes changes in operating expenses, non-operating items and provision for income taxes:

	Three Months Ended				Nine Months Ended			
	September 30,		Change from 2008 to 2009		September 30,		Change from 2008 to 2009	
	2008	2009	in Dollars	in %	2008	2009	in Dollars	in %
	(In thousands, except percentages)							
Sales and marketing	$ 451,753	$ 491,461	$ 39,708	9%	$ 1,463,190	$ 1,359,277	$ (103,913)	(7)%
Product development	190,842	205,207	14,365	8%	554,393	605,126	50,733	9%
General and administrative	248,909	272,177	23,268	9%	793,791	797,966	4,175	1%
Provision for transaction and loan losses	88,269	96,682	8,413	10%	260,872	270,597	9,725	4%
Amortization of acquired intangible assets	52,720	72,803	20,083	38%	162,472	200,066	37,594	23%
Restructuring		12,673	12,673	100%		36,937	36,937	100%
Interest and other income (expense), net	38,567	(4,606)	(43,173)	(112)%	88,077	8,957	(79,120)	(90)%
Provision for income taxes	70,423	88,599	18,176	26%	298,014	252,160	(45,854)	(15)%

Sales and Marketing

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
	(In thousands, except percentages)					
Sales and marketing	$ 451,753	$ 491,461	9%	$ 1,463,190	$ 1,359,277	(7)%
As a percentage of net revenues	21.3%	22.0%		22.5%	21.4%	

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

Sales and marketing expense increased in the third quarter of 2009 by $39.7 million, or 9% compared to the same period of the prior year, due primarily to an increase in costs attributable to Gmarket (acquired June 2009), Bill Me Later (acquired November 2008) and Den Blå Avis and BilBasen (acquired October 2008).

Sales and marketing expense decreased in the first nine months of 2009 by $103.9 million, or 7%, compared to the same period of the prior year due primarily to lower marketing program spend costs of $138.1 million due to a shift in focus from customer acquisition to customer retention (for which certain associated expenses are recorded as a reduction in revenue instead of sales and marketing expense), partially offset by increases in employee related costs of $28.2 million due primarily to the acquisitions noted above.

Sales and marketing expense as a percentage of net revenues during the third quarter of 2009 increased from the same period of the prior year due primarily to the impact from our acquisitions noted above. Sales and marketing expense as a percentage of net revenues during the first nine months of 2009 decreased from the same period of the prior year due to lower, more targeted spending within our Marketplaces segment as well as the growth of our Payments and Communications segments, each of which has lower relative sales and marketing expenses than our Marketplaces segment.

Product Development

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
	(In thousands, except percentages)					
Product development	$ 190,842	$ 205,207	8%	$ 554,393	$ 605,126	9%
As a percentage of net revenues	9.0%	9.2%		8.5%	9.5%	

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 Payments services projects. Capitalized site and product development costs were $29.0 million and $81.0 million in the third quarter and first nine months of 2009, respectively, compared to $32.9 million and $85.5 million in the third quarter and first nine months of 2008, respectively, and are primarily reflected as a cost of net revenues when amortized in future periods.

Product development expenses increased in the third quarter and first nine months of 2009 by $14.4 million and $50.7 million, or 8% and 9%, respectively, compared to the same periods of the prior year. Product development also increased as a percentage of revenue compared to the same period of the prior year. The increase in both dollars and as a percentage of revenue was due primarily to an increase in employee-related costs (including consultant costs, facility costs and equipment-related costs) driven by increased investment in our top technology priorities: search, catalog, platform, and user experience.

General and Administrative

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
	(In thousands, except percentages)					
General and administrative	$ 248,909	$ 272,177	9%	$ 793,791	$ 797,966	1%

As a percentage of net revenues	11.8%	12.2%	12.2%	12.6%

General and administrative expenses consist primarily of employee compensation, contractor costs, facilities costs, depreciation of equipment, employer payroll taxes on employee stock-based compensation, insurance and professional fees.

General and administrative expenses increased in the third quarter and first nine months of 2009 by $23.3 million and $4.2 million, or 9% and 1%, respectively, compared to the same periods of the prior year. The increase during the third quarter of 2009 was due primarily to an increase in costs attributable to Gmarket (acquired June 2009), Bill Me Later (acquired November 2008) and Den Blå Avis and BilBasen (acquired October 2008) of $14.9 million, as well as an increase of $8.4 million in professional service fees primarily related to the pending sale of Skype. General and administrative expenses during the first nine months of 2009 increased $4.2 million due primarily to costs associated with our acquisition and divestiture activities, partially offset by lower employee related and contractor costs and certain international indirect taxes.

General and administrative expenses as a percentage of net revenue in the third quarter and first nine months of 2009 increased slightly due to a decline in net revenues year over year due primarily to the higher negative impact of foreign exchange against the U.S. dollar on revenues versus the general and administrative costs that are more weighted toward U.S.-dollar costs.

Provision for Transaction and Loan Losses

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
			(In thousands, except percentages)			
Provision for transaction and loan loss	$ 88,269	$ 96,682	10%	$ 260,872	$ 270,597	4%
As a percentage of net revenues	4.2%	4.3%		4.0%	4.3%	

Provision for transaction and loan losses primarily consists of bad debt expense associated with our accounts receivable balance, loan reserves associated with our Bill Me Later loan receivable balance, and transaction loss expense (including losses resulting from our customer protection programs).

Provision for transaction and loan losses increased in the third quarter and first nine months of 2009 by $8.4 million and $9.7 million, or 10% and 4%, respectively, compared to the same periods of the prior year. The increase was due primarily to the addition of the provision for loan losses associated with our Bill Me Later business (acquired November 2008) and the introduction of our Buyer Resolution program, partially offset by decreases in bad debt expense. We continue to expect our provision for transaction and loan loss expense to fluctuate depending on many factors, including macroeconomic conditions, our customer protection programs and historical experience.

Amortization of Acquired Intangible Assets

	Three Months Ended		Percent	Nine Months Ended		Percent
	September 30, 2008	September 30, 2009	Change	September 30, 2008	September 30, 2009	Change
			(In thousands, except percentages)			
Amortization of acquired intangible assets	$ 52,720	$ 72,803	38%	$ 162,472	$ 200,066	23%
As a percentage of net revenues	2.5%	3.3%		2.5%	3.1%	

From time to time we have purchased, and we expect to continue to purchase, assets or businesses. These purchase transactions generally result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our 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 increase in amortization of acquired amortizable intangibles during the third quarter and first nine months of 2009, compared to the same periods of the prior year, was due primarily to the business acquisitions of Bill Me Later and Gmarket. The pending sale of our Communications business segment, Skype, will reduce amortization of acquired intangibles over the course of the next year. See Note 5 Goodwill and Intangible Assets to the condensed consolidated financial statements included in this report for information related to our future acquired intangible amortization.

Restructuring

During the third quarter and first nine months of 2009, total restructuring charges amounted to $12.7 million and $36.9 million, respectively. The restructuring charges incurred during the period related primarily to employee severance and benefits. See Note 11 Restructuring to the condensed consolidated financial statements included in this report.

Interest and Other Income (Expense), Net

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Percent Change	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Percent Change
	(In thousands, except percentages)					
Interest and other income (expense), net	$ 38,567	$ (4,606)	(112)%	$ 88,077	$ 8,957	(90)%
As a percentage of net revenues	1.8%	(0.2)%		1.4%	0.1%	

Interest and other income (expense), 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 and equity investment results, interest expense consisting of interest charges on the amount drawn under our credit agreement and certain accrued contingencies, and excludes interest related to Bill Me Later, which is included in cost of net revenues, and other miscellaneous transactions not related to our primary operations.

Interest and other income (expense), net, during the third quarter and first nine months of 2009 decreased $43.2 million and $79.1 million, respectively, as compared to the same periods of the prior year. The decrease in interest and other income (expense), net during the third quarter of 2009 was due primarily to a $24.4 million decrease in interest income due to lower interest rates that were earned on lower average cash, cash equivalents and investments balances, as well as the impact of foreign currency losses of $18.4 million. The decrease in interest and other income (expense), net, during the first nine months of 2009 was due primarily to a $77.2 million decrease in interest income due to lower interest rates that were earned on lower average cash, cash equivalents and investments balances.

Provision for Income Taxes

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Percent Change	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Percent Change
	(In thousands, except percentages)					
Provision for income taxes	$ 70,423	$ 88,599	26%	$ 298,014	$ 252,160	(15)%
Effective tax rate	13%	20%		17%	20%	

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal rate principally due to foreign income earned at lower tax rates and 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 impact the effective tax rate.

The increase in our effective tax rate in both the third quarter and first nine months of 2009 as compared to the same periods of the prior year is due to a larger impact from a favorable change in our geographic mix of earnings in the prior year.

From time to time, we engage in certain intercompany transactions and legal entity restructurings. We consider many factors when evaluating these transactions, including the alignment of our corporate structure with our organizational objectives, the operational and tax efficiency of our corporate structure, as well as the long-term cash flows and cash needs of our different businesses. These transactions may impact our overall tax rate and/or result in additional cash tax payments. The impact in any period may be significant. These transactions may be complex in nature and the impact of such transactions on future periods may be difficult to estimate.

Liquidity and Capital Resources

Cash Flows

	Nine months ended September 30, 2008	Nine months ended September 30, 2009
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ 2,198,052	$ 2,137,486
Investing activities	(682,914)	(2,031,583)
Financing activities	(2,276,155)	(782,043)

Effect of exchange rates on cash and cash equivalents	(117,457)	45,071
Net decrease in cash and cash equivalents	$ (878,474)	$ (631,069)

Operating Activities

We generated cash from operating activities in amounts greater than net income in the nine months ended September 30, 2008 and 2009 due primarily to non-cash charges to earnings and changes in working capital. Non-cash charges to earnings included depreciation and amortization on our long-term assets, stock-based compensation and the provision for transaction and loan losses. The decrease in cash provided by operating activities is due primarily to lower net income.

Investing Activities

The net cash used in investing activities of $2.0 billion in the first nine months of 2009 was due primarily to cash paid for the acquisition of Gmarket for $1.2 billion and purchases of investments of $468.4 million and property and equipment of $394.2 million. During the first nine months of 2008, net cash used in investing activities of $682.9 million was due primarily to purchases of property and equipment of $406.7 million and the acquisition of FraudSciences for $159.1 million, net of cash acquired.

Financing Activities

The net cash used in financing activities of $782.0 million in the first nine months of 2009 was due primarily to the repayment of borrowings under our credit agreement of $800.0 million. We did not repurchase any stock during the first nine months of 2009. Net cash used in financing activities of $2.3 billion during the first nine months of 2008 was due primarily to the repurchase of approximately 80.6 million shares of common stock for an aggregate purchase price of approximately $2.2 billion and the repayment of $200.0 million under our credit agreement, offset in part by net proceeds from the issuance of common stock of $115.6 million.

Reported cash and cash equivalents were positively affected by exchange rates during the first nine months of 2009 by $45.1 million due to the weakening of the U.S. dollar against other foreign currencies, primarily the Euro. The negative effect of exchange rates on cash and cash equivalents of $117.5 million during the first nine months of 2008 was due to the strengthening of the U.S. dollar during the period against other foreign currencies, primarily the Euro.

Stock Repurchases

In January 2008, our Board authorized, and we announced, a stock repurchase program of up to $2.0 billion of our common stock. During the nine months ended September 30, 2009, we did not repurchase any shares of our common stock. As of September 30, 2009, we have the ability to repurchase up to $656.5 million under our stock repurchase program.

Credit Agreement

As of September 30, 2009, $200.0 million was outstanding and approximately $1.6 billion was available under our credit agreement.

Liquidity and Capital Resource Requirements

At September 30, 2009, we had cash and cash equivalents of $2.6 billion, compared to $3.2 billion at December 31, 2008. The decrease in our cash and cash equivalents from December 31, 2008 is due primarily to our acquisition of Gmarket in June 2009 for $1.2 billion as well as net payments under our credit agreement of $800.0 million. The decrease was partially offset by cash flows from operations of $2.1 billion. Our primary liquidity and capital resources needs are to fund our operations, capital expenditures and acquisition activity.

At September 30, 2009, we held balances in cash and cash equivalents outside the U.S. in certain of our foreign operations totaling approximately $2.4 billion. If these cash and cash equivalents are distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. Our available cash and cash equivalents are held in bank deposits and money market funds. We actively monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety of principal while secondarily maximizing yield on those funds. We diversify our cash and cash equivalents among counterparties to minimize exposure to any single entity. To date, we have experienced no material loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. We expect to generate a significant amount of cash as the result of the pending sale of Skype.

At any point in time we have funds in our operating accounts and customer accounts that are with third party financial institutions. These balances in the U.S. may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. While we monitor the cash balances in our operating accounts, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets.

We believe that our existing cash and cash equivalents of approximately $2.6 billion at September 30, 2009, together with cash expected to be generated from operations and cash available through our credit agreement, will be sufficient to fund our operating activities, capital expenditures, acquisition activity, Bill Me Later loan portfolio, stock repurchases and other obligations for the foreseeable future.

From time to time, we engage in certain intercompany transactions and legal entity restructurings. We consider many factors when evaluating these transactions, including the alignment of our corporate structure with our organizational objectives, the operational and tax efficiency of our corporate structure, as well as the long-term cash flows and cash needs of our different businesses. These transactions may impact our overall tax rate and/or result in additional cash tax payments.

Off-Balance Sheet Arrangements

As of September 30, 2009, 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. In Europe, we have a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals from this financial institution based upon our aggregate operating cash balances held in Europe within the same financial institution (Aggregate Cash Deposits). This arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income. As of September 30, 2009, we had a total of $1.3 billion in cash withdrawals offsetting our $1.3 billion in Aggregate Cash Deposits held within the same financial institution under this cash pooling arrangement.

Customer balances held as direct claims against us, primarily PayPal, are included on our consolidated balance sheet in funds receivable and customer accounts with an offsetting current liability in funds payable and amounts due to customers, and totaled approximately $1.4 billion as of September 30, 2009 and $1.1 billion as of December 31, 2008. Customer funds held by PayPal as an agent or custodian on behalf of our customers are not reflected in our consolidated balance sheet. These funds include funds that are deposited in bank accounts insured by the FDIC on behalf of U.S. customers and funds that U.S. customers choose to invest in The PayPal Money Market Fund, which totaled approximately $2.1 billion and $1.9 billion as of September 30, 2009 and December 31, 2008, respectively. The PayPal Money Market Fund is invested in a portfolio managed by Barclays Global Fund Advisors.

Indemnification Provisions

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which 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 our 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, which are indemnities mainly related to various intellectual property rights. In our PayPal business, we have provided an indemnity to our payment processors in the event of certain third-party claims or card network fines against the processor arising out of conduct by PayPal or PayPal 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.

Recent Accounting Pronouncements

See Note 1 The Company and Summary of Significant Accounting Policies to the condensed consolidated financial statements, regarding the impact of certain recent accounting pronouncements on our consolidated financial statements.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2008. Our market risk profile has not changed significantly during the first nine months of 2009.

Interest Rate Risk

We actively monitor the third-party depository institutions that hold our cash and cash equivalents. We diversify our cash and cash equivalents among counterparties to minimize exposure to any one of these entities. Our emphasis is primarily on safety of

principal while secondarily maximizing yield on those funds. 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 investments 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, net of estimated tax.

Investment Risk

As of September 30, 2009, the carrying value of our cash and cash equivalents approximated their fair value and represented approximately 70% of our total cash, cash equivalents and investment portfolio, which was held primarily in bank deposits and money market funds. As of September 30, 2009, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

Foreign Currency Risk

Our foreign currency exposure continues to evolve as we grow internationally. Our exposure to foreign currency transaction gains and losses is the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the U.S. dollar, primarily the Euro, British pound, Korean won and Australian dollar, in which our revenues and profits are denominated. A portion of these risks is hedged, but fluctuations could impact our results of operations, financial position, and cash flows.

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 the period covered by this report 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

The information set forth under Note 9 Commitments and Contingencies to the condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

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 decline.

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:

- general economic conditions, including the possibility of a protracted recession in the U.S. and a worldwide economic slowdown; disruptions to the credit and financial markets in the U.S. and worldwide; and those economic conditions specific to the Internet, ecommerce and payments industries;

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, especially when consumer spending is contracting;

the primary and secondary effects of previously announced and possible future changes to our pricing, products and policies, including, among other changes: a reduced emphasis on upfront fees (e.g., insertion fees for listings) and corresponding increases in success-based fees (e.g., final value fees for sold items); the discontinuation of certain optional seller listing features and loss of associated revenues; new algorithms for determining which listings appear at the top of searches; tighter seller standards, which may restrict some sellers from selling on our websites even if they have been able to do so historically; new restrictions or holds on payments made to certain sellers or in connection with certain categories of higher-risk transactions; new incentives and rewards for top PowerSellers, including pricing discounts; increased protection for buyers; lower insertion fees for, and extended duration of, listings of fixed-price items; shipping and handling limits on certain categories of items (e.g., media); requiring sellers to accept at least one approved payment method (and restricting sellers from referencing non-permitted payment methods, including paper forms of payment such as checks and money orders), on eBay.com in the U.S. for most categories of items; and recently implemented changes intended to drive more sales and improve seller efficiency, including, among others, the expansion of buyer incentives and loyalty programs, requiring sellers to provide additional key information intended to set buyer expectations and help reduce seller costs, changes to performance standards and/or rewards for sellers (including the creation of a new top-rated seller status) and changes to the dispute resolution process (including directing eBay buyers to resolve disputes with sellers through eBay instead of through PayPal);

our ability to improve the quality of the user experience on our websites in light of the improved quality generally of the user experience offered by competitive Internet merchants;

our ability to reduce the loss of active buyers and sellers and increase activity of the users of our Marketplaces business, especially with respect to our top buyers and sellers, and especially in the U.S., Germany and the U.K.;

changes to our use of advertising on our sites, including changes in ad placement;

our ability to successfully integrate and manage businesses that we acquire, including new needs to manage credit risks and bad debts following our acquisition of Bill Me Later in November 2008 and to manage competing marketplaces in Korea following our acquisition of Gmarket in June 2009;

our ability to timely close the announced sale of Skype;

consumer confidence in the safety and security of transactions using our websites or technology;

our ability to manage the costs of our user protection programs;

the volume, velocity, size, timing, monetization, and completion rates of transactions using our websites or technology;

regulatory and legal actions imposing obligations on our businesses or our users, including the injunction related to certain cosmetic and perfume brands (see Item 1 Legal Proceedings above);

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, ecommerce, online payments, online advertising or online communications;

our ability to meet regulatory requirements as we expand the range and geographical scope of our services;

the actions of our competitors, including the introduction of new sites, services, and products;

our ability to manage the transaction loss rate on eBay and in our Payments business;

our ability to manage funding costs and losses associated with our Bill Me Later business;

the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our businesses, operations, and infrastructure;

the costs and results of litigation that involves us;

our ability to develop product enhancements, programs, and features at a reasonable cost and 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 comply with the requirements of entities whose services are required for our operations, such as credit card networks and banks;

the cost and availability of online and traditional advertising, and the success of our brand building and marketing campaigns;

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

the continued healthy operation of our technology suppliers and other parties with which 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, phishing, viruses, spyware, malware and other dangers of the Internet; and

macroeconomic and geopolitical events affecting commerce generally.

It is 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, 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 invest heavily in marketing and promotion, customer support, protection programs, technology and further development of the operating infrastructure for our core and non-core 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. Growth rates of our Marketplaces businesses in our most established markets, such as the U.S., Germany and the U.K., have been declining. Despite our efforts to stem these declines, growth rates in these and other markets may not improve. As our penetration in established markets grows, we will increasingly need to focus on keeping existing users, especially our top buyers and sellers, active and increasing their activity level on our websites in order to continue to grow our business. In addition, our Marketplaces business is facing increased competitive pressure. If we are unable to change our services in ways that reflect the changing demands of the ecommerce marketplace, particularly the higher growth of sales of fixed-price items and higher service levels, our business will suffer.

In April and July 2009, we announced changes to our Marketplaces business intended to drive more sales and improve seller efficiency. Some of the changes that we have announced to date have been controversial with, and led to dissatisfaction among, our sellers, and additional changes that we announce in the future may also be negatively received by some of our sellers. Given the number of recent changes that we have made to our policies and pricing, it may take our sellers some time to fully assess and adjust to these changes, and sellers may elect to reduce volume while making such assessments and adjustments or in response to these changes. If any of these changes cause sellers to move their business (in whole or in part) away from our websites or otherwise fail to improve gross merchandise volume or the number of successful listings, our operating results and profitability will be harmed. We believe that the mix of sales under our traditional auction-style listing format and fixed-price listing format will continue to shift towards our fixed-price format. Accordingly, we have eliminated some of the features related to our traditional auction-style format and expect others will become less meaningful to, and used less frequently by, our sellers, which would result in a corresponding decrease in revenues from such features. In addition, we expect that the costs associated with our seller discount programs will increase as more sellers will become eligible for such discounts.

In addition, because a large percentage of PayPal transactions originate on the eBay platform, declines in growth rates in major Marketplaces markets also adversely affect PayPal s growth rate. The expected future growth of our PayPal, Skype, StubHub, and other lower margin businesses may also cause downward pressure on our profit margins because those businesses have lower gross margins than our Marketplaces platforms.

An economic recession could harm our business.

Our Marketplaces and Payments businesses are dependent on consumer purchases. The current economic downturn has resulted in reduced buyer demand and reduced selling prices and may reduce the volume of purchases on our Marketplaces platforms and the volume of transactions paid for using our PayPal payment service, all of which would adversely affect our business. In addition, an economic downturn will likely adversely affect our advertising revenues and continue to require us to increase our reserves for bad debt and transaction losses. Continuing poor economic conditions will likely continue these trends.

We are exposed to fluctuations in currency exchange rates and interest rates.

Because we conduct a significant and growing portion of our business outside the United States but report our financial 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 be negatively impacted if the U.S. dollar strengthens against foreign currencies, as happened in the second half of 2008. Net revenues in the nine months ended September 30, 2009 were negatively impacted by foreign currency translation of $463.9 million, compared to the same period of the prior fiscal year. Operating income for the nine months ended September 30, 2009 was negatively impacted by foreign currency translation of $221.2 million, compared to the same period of the prior fiscal 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, Australian dollar, Korean won or Canadian dollar, our foreign revenues and profits will be reduced as a result of these translation adjustments. 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. In addition, to the extent the U.S. dollar strengthens against the Euro, the British pound, the Australian dollar, and the Canadian dollar, cross-border trade related to purchases of dollar-denominated goods by non-U.S. purchasers will likely decrease, and that decrease will likely not be offset by a corresponding increase in cross-border trade involving purchases by U.S. buyers of goods denominated in other currencies, adversely affecting our business.

In addition, we face exposure to fluctuations in interest rates. For example, recent reductions in interest rates have reduced our investment income, including income we earn on PayPal customer balances, which in turn has materially lowered our net interest income.

Bill Me Later s operations depend on services provided by CIT Bank.

We acquired Bill Me Later, a company that provides transaction-based credit, in November 2008. Bill Me Later is neither a chartered financial institution nor is it licensed to make loans in any state. Accordingly, Bill Me Later must rely on CIT Bank (or another chartered financial institution) to extend credit to customers in order to offer the Bill Me Later service. When a consumer makes a purchase using the Bill Me Later service, CIT Bank funds the consumer loan at the point of sale and advances funds to the merchant. Bill Me Later subsequently purchases the receivable related to the consumer loan extended by CIT Bank. Although CIT Bank continues to own each customer account, Bill Me Later owns the related receivable and is responsible for all servicing functions related to the account. Any termination or interruption of CIT Bank s services to us could result in an interruption to the Bill Me Later service. In July 2009, CIT Group, the parent company of CIT Bank, launched a restructuring plan, which it has subsequently amended. If CIT Group is unable to complete the restructuring plan, or if CIT Group s financial condition otherwise significantly impairs CIT Bank s financial condition or operations or if CIT Bank s financial condition or operations are adversely affected for any reason, CIT Bank could be placed under FDIC receivership. In the event of a receivership, the FDIC as receiver could potentially terminate or suspend our commercial relationship with CIT Bank. Bill Me Later has put in place a similar arrangement with another chartered financial institution, but if such a termination or suspension occurs with no or little advance notice from the FDIC, Bill Me Later would be unable to originate any new transactions until the new arrangement was implemented, which might materially and adversely affect Bill Me Later s business.

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. See Item 1 Legal Proceedings above. 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 purported 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 by rights owners, including litigation brought by luxury brand owners such as Tiffany & Co. in the U.S. (where Tiffany & Co. is currently appealing the trial court ruling in favor of eBay), Rolex S.A. and Coty Prestige Lancaster Group GmbH in Germany, Louis Vuitton Malletier and Christian Dior Couture in France, L Oréal SA, Lancôme Parfums et Beauté & Cie, and Laboratoire Garnier & Cie in several European countries. The plaintiffs in these cases seek to hold eBay liable for alleged counterfeit items listed on our sites by third parties, for tester and other not for resale consumer products and for unboxed and other allegedly nonconforming products listed on our sites by third parties, for the alleged misuse of trademarks or copyrights in listings or otherwise on our sites, or in connection with paid search advertisements, or for alleged violations of selective distribution channel laws or parallel import laws for listings of authentic items. Such plaintiffs seek, among other things, injunctive relief and damages. In the aggregate, these suits could result in significant damage awards and could adversely affect our business. In

June 2008, the Paris Court of Commerce ruled in the *Louis Vuitton Malletier* and *Christian Dior Couture* cases that eBay and eBay International AG were liable for failing to prevent the sale of counterfeit items on its websites that traded on plaintiffs brand names and for interfering with the plaintiffs selective distribution network. The court awarded the plaintiffs approximately EUR 38.6 million in damages and issued an injunction (enforceable by daily fines of up to EUR 100,000) prohibiting all sales of perfumes and cosmetics bearing the Dior, Guerlain, Givenchy and Kenzo brands over all worldwide eBay sites to the extent they are accessible from France. We have taken measures to comply with the injunction and have appealed these rulings. However, these and similar suits may force us to modify our business practices, which could lower our revenue, increase our costs or make our websites less convenient to our customers. Any such results could materially harm our business.

In addition to litigation from rights owners, we may be subject to regulatory, civil or criminal proceedings and penalties if the authorities believe 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 litigation. For example, the German Federal Supreme Court has ruled that we may owe duties, under certain circumstances, to content owners and competitors relating to taking reasonable steps to prevent the listing of illegal, counterfeit, and pirated items. 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 under the Electronic Commerce Directive because of the alleged 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 supposedly have not adequately removed listings that are counterfeit or are authentic but allegedly violate trademark law or effectively suspended users who have created such listings. We are constantly seeking to improve and modify our efforts to eliminate counterfeit and pirated items. These improvements are in response to ongoing business initiatives designed to reduce bad buyer experiences and improve customer satisfaction as well as in response to new patterns we are seeing among counterfeiters and others committing fraud on our users. Notwithstanding these efforts, we believe that the legal climate, especially in Europe, is becoming more adverse to our arguments, which may require us to take actions which could lower our revenues, increase our costs, or make our websites less convenient to our customers, which may materially harm our business. In addition, a public perception that counterfeit or pirated items are commonplace on our site, even if factually incorrect, could damage our reputation and our business.

Content owners and other intellectual property rights owners may also seek to bring legal action against entities that are peripherally involved in the sale of infringing items, such as payment companies. To the extent that intellectual property rights owners bring legal action against PayPal based upon the use of PayPal s payment services in a transaction involving the sale of infringing items, including on our websites, our business could be harmed.

We are subject to patent litigation.

We have repeatedly been sued for allegedly infringing other parties patents. Some of these 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 involving various aspects of our Marketplaces and Payments segments as our services expand in scope and complexity. 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.

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 often challenged in the U.S. and internationally. We may be unable to prevent our users from selling unlawful or stolen goods or unlawful services or selling goods or services 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 services. 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 website. We continue to contest the charges related to this arrest. Similarly, our Korean subsidiary, IAC, and one of its employees were found criminally liable for listings on the Korean subsidiary s website. The German Federal Supreme Court has ruled that we may have a duty to take reasonable measures to prevent prohibited DVDs from being sold on our site to minors and that competitors may be able to enforce this duty. In a number of circumstances, third parties have alleged that our services aid and abet certain violations of certain laws, including antiscalping laws with respect to the resale of tickets, laws regarding the sale of counterfeit items, the fencing of stolen goods, selective distribution channel laws, and distance selling laws.

Although we have prohibited the listing of stolen goods and certain high-risk items and implemented other protective measures, we may be required to spend substantial resources to take additional protective measures or discontinue certain service offerings, any of which could harm our business. Any costs incurred as a result of potential liability relating to the alleged or actual sale of unlawful goods or the unlawful sale of goods could harm our business. Certain manufacturers and large retailers have sought new U.S. Federal and state legislation regarding stolen goods that could limit our ability to allow sellers to use our sites without confirming the source of, and their legal rights to sell, the underlying goods. In addition, from time to time we have received significant media attention relating to the listing or sale of unlawful goods and stolen goods using our services. This negative publicity, even if factually incorrect, could damage our reputation, diminish the value of our brand names and make users reluctant 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. Recent changes in law have increased the penalties for intermediaries providing payment services for certain illegal activities. Despite measures PayPal has taken to detect and lessen the risk of this kind of conduct, illegal activities could still be funded using PayPal. Any resulting claims or liabilities could adversely affect our business.

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

As discussed above with respect to certain specific issues, the law relating to the liability of online services companies for information carried on or disseminated through their services is often 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 under a number of these theories have been brought against us, as well as other online service companies. 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 not removing content posted in the Feedback Forum.

Furthermore, several court decisions arguably have narrowed the scope of the immunity provided to Internet service providers like us under the Communications Decency Act. For example, the Ninth Circuit has held that certain immunity provisions under the Communications Decency Act might not apply to the extent that a website owner materially contributes to the development of unlawful content on its website. As our websites evolve, challenges to the applicability of these immunities can be expected to continue. In addition, the Paris Court of Commerce has ruled in the *Louis Vuitton Malletier* and *Christian Dior Couture* cases that applicable laws protecting passive internet hosts from liability are inapplicable to eBay given that the content in question was provided by users under eBay s control and authority. This trend, if continued, may increase our potential liability to third parties for the user-provided content on our sites, particularly 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, including expending substantial resources or discontinuing 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 require us to incur additional costs and harm our reputation and our business.

Government inquiries may lead to charges or penalties.

A large number of transactions occur on our websites on a daily basis. Government regulators have received a significant 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. We currently face inquiries from government regulators in various jurisdictions related to actions that we have taken that are designed to improve the safety of transactions on our websites, most notably by requiring PayPal to be offered and/or used for certain high-risk transactions or by certain sellers in certain jurisdictions, and we may face similar inquires from other government regulators in the future. For example, the Reserve Bank of Australia recently reviewed our policies requiring sellers to offer PayPal as a payment alternative on most transactions on our localized Australian website and precluding sellers from imposing a surcharge or any other fee for accepting PayPal or other payment methods. Similarly, Bill Me Later has from time to time received customer complaints that could result in investigations into Bill Me Later s business practices by state or federal regulators. As a result of the current credit crisis, we expect new laws and regulations to be adopted that impose, among other things, additional obligations and restrictions on providers of credit. We are likely to receive additional inquiries from regulatory agencies in the future,

including under existing or new credit laws or regulations, which may lead to action against us. 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 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 have increased as our business has expanded and our company has grown 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. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming result in costly litigation, damage awards, injunctive relief, or increased costs of business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources, or otherwise harm our business.

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

Beginning in October 2008, buyers who pay for transactions on eBay.com with PayPal are protected on eligible transactions for the full amount of an item s purchase price if the buyer does not receive the goods they purchased or if the goods differ significantly from what was described by the seller. Furthermore, U.S. sellers on eBay.com have received improved seller protection for eligible transactions in which the seller is paid with PayPal, in that they are covered against payment reversals due to buyer claims of an unauthorized payment or an item that was not received, so long as the seller follows specified shipping and handling practices. We have also enhanced our buyer and seller protections in certain eBay international marketplaces. These changes to PayPal s buyer and seller protection program could result in future increases and fluctuations in our Payments transaction loss rate. For the full year ended December 31, 2008 and the three months ended September 30, 2009, our Payments transaction losses (including both direct losses and buyer protection payouts) totaled $171.5 million and $44.5 million, representing 0.29% and 0.25% of our net Total Payment Volume in each period, respectively. We have recently announced plans to change the dispute resolution process for transactions on eBay.com and eBay.co.uk, which are described in greater detail below under the heading Changes to our dispute resolution program could increase our costs and loss rate and could result in an increase in our transaction losses.

PayPal s highly automated and liquid payment service makes PayPal an attractive target for fraud. In configuring its service, PayPal continually strives to maintain the right balance of appropriate measures to promote both convenience and security for customers. 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 using increasingly sophisticated methods. In addition, PayPal s service could be subject to employee fraud or other internal security breaches, and PayPal may 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 or other types of 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 potentially 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 and result in corresponding decreases in our net Total Payment Volume, in which case our business would further suffer. Bill Me Later is similarly subject to the risk of fraudulent activity associated with merchants, users of the Bill Me Later service and third parties handling its user information, which could increase our exposure to transaction losses and reduce the profitability of Bill Me Later s business. Our Payments business 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 and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business will suffer.

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 and Asian jurisdictions, buyers may also have the right to withdraw from a sale made by a professional seller within a specified time period. While sometimes 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. The impact of recently announced changes to our dispute resolutions program is discussed in more detail below under the caption Changes to our dispute resolution process could increase our costs and loss rate.

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 in some jurisdictions and may be higher in some non-U.S. jurisdictions than it is in the U.S. Litigation involving liability for 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 Marketplaces and Payments services could damage our reputation, reduce our ability to attract new users or retain our current users, diminish the value of our brand names. We believe that negative user experiences are one of the primary reasons users stop using our services.

Changes to our dispute resolution process could increase our costs and loss rate.

In April 2009, we announced plans to change the dispute resolution process (which we refer to as resolutions) for transactions on eBay.com and eBay.co.uk in which buyers claim the item was not received or the item they received was different from that described in the listing. Previously, buyers with an issue on our eBay.com and eBay.co.uk platform were generally required to contact the seller directly, and, if they are unable to resolve the issue, to start the resolutions process online via PayPal s resolution center. We are in the process of transitioning to a new, on-eBay resolutions process provided by eBay customer support, which will serve as the primary entry point for buyers on eBay.com and eBay.co.uk who are unable to resolve their disputes with eBay sellers. Among other things, the new resolutions process provides that eBay will generally reimburse the buyer in cases where the item was not received or the item they received was different from that described in the listing and the seller does not provide adequate resolution to the buyer. We expect that our costs associated with resolutions will increase as we make these changes to our resolutions process. These changes, together with any further changes that we may make to our resolutions process in the future, may be negatively received by, and lead to dissatisfaction on the part of, our sellers. In addition, the eBay customer support team that will handle resolutions does not have the same experience in fraud detection as the PayPal customer support team, and we may therefore be susceptible to an increase in fraud and associated transaction losses and an increase in customer support expense as a result of these changes.

Any factors that reduce cross-border trade could harm our business.

Cross-border trade has become an increasingly important source of both revenue and profits for us. Cross-border transactions using our websites generally provide higher revenues and gross margins than similar transactions that take place within a single country or market. We generally earn higher transaction fees for cross-border transactions involving PayPal, and our Marketplaces business continues to represent a relatively easy way for buyers and sellers to engage in cross-border trade compared with other alternatives. To the extent that any factors result in a net reduction in cross-border trade, including, among other factors, fluctuations in exchange rates, the application of specific national or regional laws (e.g., selective distribution channel laws and parallel import laws) to users in other countries, or any other factors impose restrictions on, or increase the costs of, shipping goods across national borders (including customs enforcement and tariffs), our business would suffer. We believe that increases in the relative value of the U.S. dollar versus other currencies in the first half of 2009 have reduced cross-border trade between U.S. sellers and foreign buyers, without a corresponding increase in cross-border traffic in the other direction, adversely affecting our business.

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 effectively 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, and could result in a violation of applicable privacy and other laws. 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 contracts 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.

eBay s Korean subsidiary, IAC, has notified a majority of its approximately 20 million users of a January 2008 data breach involving personally identifiable information including name, address, resident registration number and some transaction and refund data (but not including credit card information or real time banking information). Approximately 144,000 users have sued IAC over this breach in several lawsuits in Korean courts and we expect more to do so in the future. Trial for a group of four representative suits began in August 2009, and trial for a group of 23 other suits began in September 2009. These trials are expected to be completed in November 2009. There is some precedent in Korea for a court to grant consolation money for data breaches without a specific finding of harm from the breach. Such precedents have involved payments of up to approximately $200 per user. IAC intends to vigorously defend itself in these lawsuits. In December 2008, the Korea Consumer Agency (KCA) made a non-binding recommendation that IAC make payments of 50,000-100,000 Korean won (approximately $40-$80) to users who had complained to it as a result of such breach. IAC rejected this non-binding recommendation and did not make any payments, and this KCA process has ended even though the complainants may still file lawsuits in court.

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 (most recently involving our Korean IAC website in July 2009). 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, including any breach by us or by parties with which we have commercial relationships that result in the unauthorized release of our users personal information, 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 and phishing 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 and phishing emails through product improvements and user education, spoof and phishing remain a serious problem that may damage our brands, discourage use of our websites, and increase our costs.

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business.

We are subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our users, especially for financial information and for users located outside of the U.S. In many cases, these laws 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. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. The interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, we have and post on our websites our own privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect us. In addition, as noted above, we are subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Our revenue from advertising is subject to factors beyond our control.

We derive an increasing portion of our revenues from advertising on our websites. Revenues from online advertising are sensitive to events and trends that affect advertising expenditures, such as general changes in the economy and changes in consumer spending, as well as the effectiveness of online advertising versus offline advertising media and the value our websites provide to advertisers relative to other websites. Recent economic conditions have adversely impacted our advertising revenue. In addition, major search engine operators have the ability to change from time to time, at their sole discretion, the rules and search algorithms governing the pricing, availability, and placement of online advertising. Any changes in these rules or search algorithms could materially reduce the value that we derive from online advertising on our websites, either directly or indirectly. For example, retailers pay a fee to Shopping.com for online shoppers directed to their websites by Shopping.com. Rule changes made by search engines in 2008 disrupted traffic to our Shopping.com website, which in turn adversely affected click-through traffic to retailers from our Shopping.com website and associated fee revenue. Furthermore, we have recently changed the placement of ads on our sites, which may reduce the amount we are paid. If we experience a reduction in our advertising revenues due to economic, competitive, technological or other factors, including the worldwide economic slowdown, a reduction in revenue due to the renegotiation of the terms of our contracts with major advertising companies such as Yahoo!, Google and Microsoft, changes in our ad placement, or if we are unable to provide value to our advertisers, our business and financial results would suffer.

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

We believe that continuing to strengthen our brands will be critical to achieving widespread acceptance of our services, and will require a continued focus on active marketing efforts across all of our brands. We will need to continue to spend substantial amounts of money on, and devote substantial resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Since 2005, we have significantly increased the number of brands we are supporting, adding Shopping.com, our classified websites (e.g., Kijiji, Marktplaats and Den Blå Avis), StubHub, Skype, Bill Me Later and Gmarket, 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 may not offset the expenses incurred in building our brands. Also, major search engine operators that we use to advertise our brands have frequently-changing rules that govern their pricing, availability and placement of online advertisement (e.g., paid search, keywords), and changes to these rules could negatively affect our use of online advertising to promote our brands. 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.

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. It is not always clear how existing laws governing issues such as property ownership, copyrights, trademarks and other intellectual property issues, parallel imports and distribution controls, taxation, libel and defamation, obscenity, and personal privacy apply to online businesses such as ours. 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 Directives on Distance Selling and Electronic Commerce, are being interpreted by the courts, but their applicability and scope remain uncertain. Furthermore, as our activities and the types of goods and services listed on our websites expand, including through acquisitions such as our acquisition of Bill Me Later, a transactional credit provider, in November 2008 and StubHub, an online ticket marketplace, in February 2007, regulatory agencies or courts may claim or hold that we or our users are subject to licensure or prohibited from conducting our business in their jurisdiction, either generally or with respect to certain actions (e.g., the sale of real estate, event tickets, cultural goods, boats and automobiles).

Our success and increased visibility has driven some existing businesses that perceive our business model to be a threat to their business to raise concerns about our business models to policymakers and regulators, particularly in the U.S. and Europe. These established businesses and their trade association groups employ significant resources in their efforts to shape the legal and regulatory regimes in countries where we have significant operations. They may employ these resources in an effort to change the legal and regulatory regimes in ways intended to reduce the effectiveness of our businesses and the ability of users to use our products and services. In particular, these established businesses have raised concerns relating to pricing, parallel imports, professional seller obligations, selective distribution networks, stolen goods, copyrights, trademarks and other intellectual property rights, and the liability of the provider of an Internet marketplace for the conduct of its users related to those and other issues. In addition, regulatory agencies may view matters or interpret laws and regulations differently than they have in the past. Changing the legal or regulatory regimes in a manner that would increase our liability for third-party listings could negatively impact our business.

Over the last few years some large retailers and their trade associations have sought legislation in a number of states and the U.S. Congress that would make eBay liable for the sale of stolen property or would ban certain categories of goods from sale on our

41

platform, including gift cards and health and beauty products. No such legislation has passed. Nonetheless, the proponents continue to seek passage of such legislation, and if any of these laws are adopted they could harm our business.

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, including France, 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 France, we have been sued by Conseil des Ventes, the French auction regulatory authority. The authority alleges that sales on our French website constitute illegal auctions that cannot be performed without its consent. A lawsuit alleging similar claims has been brought against us by two associations of French antique dealers. We intend to vigorously defend against these lawsuits. However, this and other regulatory and licensure claims could result in costly litigation and, if successful, could require us to change the way we or our users do business in ways that increase costs or reduce revenues (for example, by forcing 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.

A number of the lawsuits against us relating to trademark issues seek to have our websites subject to unfavorable local laws. For example, trademark exhaustion principles provide trademark owners with certain rights to control the sale of a branded authentic product until it has been placed on the market by the trademark holder or with the holder s consent. The application of trademark exhaustion principles is largely unsettled in the context of the Internet, and if trademark owners are able to force us to prohibit listings of certain items in one or more locations, our business could be harmed.

As we expand and localize our international activities, we become obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, one or more jurisdictions may claim that we or our users are required to comply with their laws based on the location of our servers or one or more of our users, or the location of the product or service being sold or provided in an ecommerce transaction. For example, we were found liable in France, under French law in the recent *Louis Vuitton Malletier* litigation for transactions on our websites worldwide that did not involve French buyers or sellers (see Item 1 Legal Proceedings above). Laws regulating Internet and ecommerce companies outside of the U.S. may be less favorable than those in the U.S., giving greater rights to consumers, content owners, competitors, users and other third parties. Compliance may be more costly or may require us to change our business practices or restrict our service offerings, and the imposition of any regulations on our users may harm our business. In addition, we may be subject to overlapping legal or regulatory regimes that impose conflicting requirements on us. Our alleged failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to significant fines to bans on our services.

In light of the global financial crisis, federal lawmakers in Washington, D.C., have discussed the possibility of overhauling the U.S. financial regulatory system and making significant changes to regulations governing financial services. In the event that such changes are adopted, they could potentially result in PayPal becoming subject to one or more federal financial services regulators and eBay Inc. being regulated as a financial services holding company. Even if we do not become subject to regulation in the manner described in the preceding sentence, we could be subject to additional licensure requirements, laws and regulations and increased regulatory scrutiny, which would impose substantial costs on us and could require us to change our business practices in ways that would harm our business.

If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfers, money laundering, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices.

While PayPal currently allows its customers with credit cards to send payments from 190 markets, PayPal only allows customers in 65 of those markets (including the U.S.) to receive payments, in some cases with significant restrictions on the manner in which customers can withdraw funds. These limitations may affect PayPal s ability to grow in these markets.

Of the 190 markets whose residents can use the PayPal service, 31 (27 countries plus four French overseas departments) are members of the European Union (EU). Since 2007, PayPal has provided 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. Accordingly, 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 has limited experience in operating as a bank, and any fines or other enforcement actions imposed by the Luxembourg regulator could adversely affect PayPal s business. 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, and 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, and 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.

In addition, the EU Payments Service Directive, which establishes a new regulatory regime for payment services providers, is due to take effect in November 2009. The interpretation of regulations implementing the EU Payments Service Directive remains uncertain.

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 Singaporean law or, if it is subject to local laws, 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 some jurisdictions, future localization or targeted marketing of PayPal s service in those countries, or expansion of the financial products offered by PayPal to new jurisdictions (either alone, through a commercial alliance or through an acquisition), could subject PayPal to additional licensure requirements, laws and regulations and increased regulatory scrutiny. These factors could impose substantial costs and involve considerable delay to the provision or development of its products. Delay or failure to receive such a license or regulatory approval could 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 products and services to customers in one or more countries.

PayPal is also subject to various anti-money laundering and counter-terrorist financing laws and regulations around the world 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 the United States, 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. PayPal has localized its service in a number of other countries and as a result is subject to additional verification and reporting requirements, which in some cases are more stringent. Several countries, including Australia, Luxembourg and Singapore, have recently implemented new anti-money laundering and counter-terrorist financing laws and regulations, and PayPal has had to make changes to its procedures accordingly. As PayPal continues to localize its services in additional jurisdictions, the impact of these varying laws and regulations on PayPal s business is uncertain. PayPal could be required, among other things, 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 could impose significant costs on PayPal, make it more difficult for new customers to join its network and reduce the attractiveness of its product. Failure to comply with federal, state or foreign money laundering and counter-terrorist financing laws could result in significant criminal and civil lawsuits, penalties, and forfeiture of significant assets.

To date, PayPal has obtained licenses to operate as a money transmitter in 42 U.S. states and territories and interpretations in seven states that licensing is not required under their existing statutes. The remaining U.S. states and territories do not currently regulate money transmitters. As a licensed money transmitter, PayPal is subject to restrictions on its investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies. If PayPal were found to be in violation of money services laws or regulations, PayPal could be subject to liability, forced to cease doing business with residents of certain states, forced to change its business practices, or required to obtain additional licenses or regulatory approvals that could impose a substantial cost on PayPal. 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 its PayPal account. Our Bill Me Later service is similarly subject to a variety of laws and regulations. Although Bill Me Later does not originate loans, one or more jurisdictions may conclude that Bill Me Later is a lender or money transmitter or loan broker, which could subject us to liability or regulation in one or more jurisdictions. Additionally, federal regulators could mandate changes to the relationship between Bill Me Later and CIT Bank, the financial institution that Bill Me Later relies on to extend credit to customers with the Bill Me Later service. Any termination or interruption of CIT Bank s services to us could result in an interruption of Bill Me Later service, as described in Bill Me Later s operations depend on CIT Bank above.

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

PayPal does not belong to or directly access credit card networks, such as Visa and MasterCard. As a result, PayPal must rely on banks or other payment processors to process transactions, and must pay fees for this service. From time to time, credit card networks have increased, and may increase in the future, the interchange fees and assessments 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 and assessments 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 network operating rules, and PayPal has agreed to reimburse its processors for any fines they are assessed by credit card networks as a result of any rule violations by PayPal or PayPal s customers. The credit card networks set and interpret the credit card rules. Credit card networks 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 networks 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 the credit card networks discretion. PayPal also could be subject to fines from credit card networks 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 credit card networks and conduct additional monitoring with respect to such merchants. PayPal has incurred fines from its credit card processor relating to 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 customers fund payment transactions using credit cards, lower payments when customers fund payments with debit 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 or use buyer credit issued by GE Money Bank. As of October 2009, eligible U.S. customers may also fund payment transactions through a loan originated by CIT Bank in the Bill Me Later service, and PayPal will incur no fees for such transactions. Customers 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, cash rebates, or other incentives offered by credit card issuers, the ability to defer payment, or a reluctance to provide bank account information to PayPal. The proportion of PayPal s payment volume funded using credit cards has increased over time. In addition, some of PayPal s 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. At the same time, 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. This settlement has been approved by the court.

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.

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. Our eBay.com website has been interrupted for periods of up to 22 hours, and our PayPal website has suffered intermittent unavailability for periods as long as five days, most recently for approximately five hours in August 2009. In August 2007, Skype experienced an interruption during which the majority of Skype s users were unable to use its products for approximately two days. 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 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 and the systems related to the Bill Me Later business, 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.

There are many risks associated with our international operations.

Our international expansion has been rapid and our international business, especially in Germany and the U.K., has also become critical to our revenues and profits. Net revenues outside the U.S. accounted for approximately 54% of our net revenues in both fiscal year 2008 and the first nine months of 2009. 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 more 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 2007 we contributed our business in China to a joint venture with a local Chinese company. Even if we are successful in developing new markets, we often 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, Shopping.com, and our classified businesses, we are increasingly 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, privacy and 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 various taxes, penalties or audits, or limit the transfer of information between us and our affiliates;

- greater liability or 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;

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

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

difficulties in integrating with local payment providers, including banks, credit and debit card networks, 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;
- seasonal reductions in business activity;
- expenses associated with localizing our products, including offering customers the ability to transact business in the local currency;
- 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 (e.g., in South Korea relating to its disputes with North Korea);
- challenges associated with maintaining relationships with local law enforcement and related agencies; 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 the caption We are exposed to fluctuations in currency exchange rates and interest rates, above.

In addition, we conduct certain functions, including product development, customer support and other operations, in regions outside the U.S., particularly in India and China. We are subject to both U.S. and local laws and regulations applicable to our offshore activities, and any factors which reduce the anticipated benefits, including cost efficiencies and productivity improvements, associated with providing these functions outside of the U.S. could adversely affect our business.

We are continuing to expand PayPal s services internationally. 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. Such requirements may reduce our profitability or limit the scope of our activities in particular countries. 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 in January 2008 we acquired Fraud Sciences Ltd., an Israeli company. As a result, political, economic and military conditions in Israel affect those operations. 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 countries or other entities could make it more difficult for us to continue our operations in Israel, which could increase our costs. In addition, many of our employees in Israel could be required to serve in the military for extended periods of time under emergency circumstances. Our Israeli operations could be disrupted by the absence of employees due to military service, which could adversely affect our business.

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

We have acquired a number of businesses in the past, including, most recently, Gmarket in Korea, Bill Me Later in the United States and Den Blå Avis and BilBasen, classified businesses in Denmark. In September 2009, we signed an agreement to sell a majority of Skype and retain an equity stake of approximately 35%. 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 number, 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;

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

- liability for activities of the acquired company before the acquisition, including violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

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. For example, in connection with the Skype transaction, we recorded a goodwill impairment charge of approximately $1.4 billion in our financial statements during 2007. Future acquisitions or mergers may require us to issue additional equity securities, spend our cash, or incur debt, liabilities, amortization expenses related to intangible assets or write-offs of goodwill, any of which could reduce our profitability and harm our business.

In addition, we have made certain investments, including through joint ventures, in which we have a minority equity interest and lack management and operational control. These investments may involve risks. For example, the controlling joint venture partner in a joint venture investment may have business interests, strategies or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture.

Bill Me Later s operations expose us to new risks.

Risks associated with Bill Me Later s reliance on CIT Bank are discussed in detail under the caption Bill Me Later s operations depend on CIT Bank above.

Bill Me Later relies on third-party merchant processors and payment gateways to process transactions using the Bill Me Later service. For the nine months ended September 30, 2009, approximately 82% of all transaction volume by dollar amount through the Bill Me Later service was settled through the facilities of a single vendor. Any disruption to these third party payment processing and gateway services would adversely affect the Bill Me Later service.

We currently fund the purchase of receivables related to Bill Me Later accounts through free cash flow generated from our portfolio of businesses and from our existing credit agreement. Our existing credit agreement may be adversely affected by the impact of current financial conditions on our counterparties. Our ability to securitize receivables related to Bill Me Later accounts has been effectively eliminated by recent disruptions in the credit industry. If we are unable to fund receivables related to the Bill Me Later business adequately or in a cost-effective manner, the growth and profitability of the Bill Me Later business could be significantly and adversely affected.

The Bill Me Later service is offered to a wide range of consumers, and the profitability of this business depends on our ability to manage credit risk while attracting new consumers with profitable usage patterns. Bill Me Later approves loans using proprietary segmentation and credit scoring algorithms and other analytical techniques designed to analyze the credit risk of the specific transaction. These algorithms and techniques may not accurately predict the creditworthiness of a consumer due to, among other factors, inaccurate assumptions about a particular consumer or the economic environment. Bill Me Later may also incorrectly interpret the data produced by these algorithms in setting its credit policies. Bill Me Later s ability to manage credit risk may also be adversely affected by economic conditions, legal or regulatory changes (such as bankruptcy laws and minimum payment regulations), competitors actions and consumer behavior and other factors. In addition, the credit crisis and current recession in the U.S. may affect consumer confidence levels and reduce consumers ability or willingness to use credit, including our transaction-based credit product, which could impair the growth of the Bill Me Later business.

As of September 30, 2009, Bill Me Later had an aggregate consumer loan portfolio of approximately $511.8 million. Like other businesses with significant exposure to losses from consumer loans, the Bill Me Later service faces the risk that account holders will default on their payment obligations, resulting in accounts becoming uncollectible, and the risk of potential charge-offs related to the loan portfolio. The rate at which accounts are charged off as uncollectible, or the credit loss rate, was approximately 11.53% for the three months ended September 30, 2009. The nonpayment rate among Bill Me Later users may increase due to, among other things, worsening economic conditions, such as the current recession in the U.S., and higher unemployment rates. Consumers who miss payments on their loans often fail to repay them, and consumers who file for protection under the bankruptcy laws generally do not repay their loans. The age and rate of growth of a consumer loan portfolio also affects the rate of missed payments and loans charged off as uncollectible. Consumers are less likely to miss their payments within the first 12 to 18 months of a loan s term. When a lender makes fewer loans than it has in the past, the proportion of new loans in its portfolio will decrease and the rate of missed payments and charge-offs in the portfolio will increase, which has been the case with Bill Me Later.

In addition, Bill Me Later faces other risks similar to those faced by PayPal, including the risk of system failures, security breaches or other loss of customer data, fraud, intellectual property claims, compliance failures, and changes to regulations relating to credit offerings described in these Risk Factors, including under the captions Government inquiries may lead to charges or penalties and If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfer, money laundering, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices.

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 (VAT), goods and services tax, business tax, and gross receipt tax) to ecommerce 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 ecommerce. In many cases, it is not clear how existing statutes apply to the Internet or ecommerce 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. For example, the State of New York has passed legislation that requires any out-of-state seller of tangible personal property to collect and remit New York use tax if the seller engages affiliates above certain financial thresholds in New York to perform certain business promotion activities. Several ecommerce companies are challenging this new law, which was recently upheld by a lower level New York court. Some states are considering similar legislation related to affiliate activities. While the new law in New York does not specifically apply to our businesses, the proliferation of such state legislation could adversely affect some of our sellers at some point in the future and indirectly harm our business.

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. Such legislation may be considered by the U.S. Congress as a way to enable states to increase sales tax revenues and help address significant state budget difficulties caused by the economic downturn. The adoption of any legislation overturning the *Quill* decision that lacks a robust small business exemption would result in the imposition of sales taxes, as well as costs associated with complex sales tax collection, remittance and audit compliance requirements on our sellers, would make selling on our websites less attractive for small retailers, and would harm our business.

From time to time, some taxing authorities have notified us that they believe we owe them certain taxes. In May 2008, the City of Chicago notified both eBay and StubHub that they are liable for a city amusement tax on tickets to events in Chicago, irrespective of the location of the buyer or seller, and has filed suit to enforce collection of taxes they claim are due. In March 2009, the court ruled that StubHub is not required to collect and remit the city amusement tax. The City of Chicago has requested reconsideration of this ruling and StubHub has sought clarification of the ruling relative to the remaining counts as well. In August 2009, the court granted StubHub s motion for reconsideration and entered a final order dismissing the case. In September 2009, the City of Chicago filed an appeal which is pending. The application of similar existing 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 or communications through the Internet. These proposals, if adopted, could substantially impair the growth of ecommerce and our brands, and could diminish our opportunity to derive financial benefit from our activities. The U.S. federal government s moratorium on state and local taxation of Internet access or multiple or discriminatory taxes on ecommerce was extended through November 2014. This moratorium does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting certain taxes that were in effect prior to the enactment of the moratorium and/or one of its extensions.

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, reporting or record-keeping obligation on companies that engage in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance (and legislation to such effect has been discussed in the U.S. Congress, several states, and a number of foreign jurisdictions) or if an eBay company was ever deemed to be the legal agent of the users of our services by a jurisdiction in which eBay operates. In July 2008, the Housing and Economic Recovery Act of 2008 (H.R. 3221) was signed into law. This law contains provisions that require companies like PayPal to report to the IRS information on payments received by some of our customers. The legislation, effective for payments received after December 31, 2010, will require PayPal and similar companies to report to the IRS U.S.-based customers who receive more than $20,000 in payments and more than 200 payments in a year. This law will require PayPal to request tax ID numbers from U.S. users and track payments by tax ID number. This requirement may decrease seller activity and harm our business. One or more other jurisdictions may also seek to impose tax-collection or reporting obligations based on the location of the product or service being sold or provided in an ecommerce transaction, regardless of where the respective users are located. Imposition of a discriminatory record keeping or tax collecting requirement could decrease seller activity on our sites and 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 many jurisdictions for information regarding the transactions of large classes of sellers on our sites, and in some cases we have been legally obligated to provide this data. The imposition of any requirements on us to disclose transaction records for all or a class of sellers to tax or other regulatory authorities or to file tax forms on behalf of any sellers, especially requirements that are imposed on us but not on alternative means of ecommerce, 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.

We pay input VAT on applicable taxable purchases within the various countries in which we operate. In most cases, we are entitled to reclaim this input VAT from the various countries. 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 we are not entitled to reclaim VAT could 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.

The recently announced transaction pursuant to which we will sell a majority of Skype (retaining an approximately 35% interest) is subject to closing conditions and may not close.

Our sale of Skype is subject to a number of closing conditions, including receipt of antitrust approvals. If these conditions are not satisfied or waived, the transaction could be delayed or not take place.

The current regulatory environment for Internet communications 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 Internet communications is uncertain and rapidly changing. Skype believes that its Internet communications products are currently subject to few, if any, of the same regulations that apply to traditional telephony and Voice over Internet Protocol (VoIP)-based telephone replacement services. Internet communications 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. However, the status of Internet communications providers is uncertain in many jurisdictions and Skype frequently must respond to inquiries about its regulatory status. 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 calling services requirements, which require traditional and telephony and VoIP-based providers to be able to determine and provide the location of a person making an emergency call in many jurisdictions, difficult or impossible.

Some countries have prohibited Skype. 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. In addition, increased regulatory requirements on Internet communications would increase Skype s costs, and, as a result, our business would suffer.

New rules and regulations with respect to Internet communications 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.

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 video compression/decompression used to provide high 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 or loss of service until equivalent technology or suitable alternatives can be developed, identified, licensed and integrated. While we believe Skype generally has the ability to either extend these licenses on commercially reasonable terms or identify and obtain or develop suitable alternatives, the costs associated with licensing or developing such alternatives could be high and the technical challenge of assuring backward compatibility with older versions of Skype s technology may be difficult to overcome. Any failure to maintain these licenses on commercially reasonable terms or to license or develop alternative technologies would harm Skype s business.

In March 2009, Skype filed a claim in the English High Court of Justice (No. HC09C00756) against Joltid Limited, a licensor of certain peer-to-peer communication technology used in Skype s business. Following the filing of the claim, Joltid purported to terminate the license agreement between the parties. See Item 1 Legal Proceedings above.

Our businesses depend on continued and unimpeded access to the Internet. Internet service providers may be able to block, degrade, or charge us or 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 Internet communications offerings (which would include Skype) 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.

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

Our tickets business, which includes our 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, and new laws and regulations imposing these or other restrictions may be adopted that would limit our or our users ability to continue our tickets 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. Suits alleging a variety of causes of actions have in the past, and may in the future, be filed against StubHub and eBay by venue owners, competitors, ticket buyers and unsuccessful ticket buyers. Such litigation could result in damage awards, could require us to change our business practices in ways that may be harmful to our business, 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. The recent economic downturn has resulted in a decrease in ticket prices sold on our site and has adversely affected revenue and profits. Our tickets business also faces significant competition from a number of sources, including ticketing service companies (such as TicketMaster, Live Nation and Tickets.com), event organizers (such as professional sports teams and leagues), ticket brokers, and other online and offline ticket resellers, such as TicketsNow (which is owned by TicketMaster) and RazorGator. In addition, ticketing service companies and event organizers have recently begun to issue event tickets through paperless (electronic) ticketing systems that include restrictions on the transferability of such event tickets. To the extent that event tickets issued in this manner cannot be resold on our websites, or to the extent that we are otherwise unable to compete with these competitors, our tickets business would be harmed.

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. In 2008, we changed our Chief Executive Officer and the heads of all three of our business units. These changes may result in increased attrition of our personnel as new reporting relationships are established and as other companies may increasingly target our executives. 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 some members of our senior management team have fully vested the vast majority of their in-the-money equity incentives. The loss of the services of any of our executive officers or other key employees could harm our business. 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 equity awards they would receive in connection with their employment. Fluctuations in our stock price may make it more difficult to retain 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.

In the fourth quarter of 2008, we undertook a plan to reduce our global workforce to simplify and streamline our organization, improve our cost structure and strengthen our overall businesses. These changes have resulted in the recording of related accounting charges and could harm employee morale and productivity and be disruptive to our business.

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. Similarly, Bill Me Later relies heavily on third parties to operate its services, including merchant processors and payment gateways to process transactions. Financial or regulatory issues, labor issues (e.g., strikes or work stoppages) 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. In addition, price increases by companies that provide services to our users (such as postal and delivery services) 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. Any security breach at one of these companies could also adversely affect our customers and harm our business.

In October 2009, U.K. postal workers voted in favor of and commenced, a series of rolling nationwide strikes that are expected to significantly disrupt the operation of the Royal Mail (the U.K. postal service). Depending on their duration and the resulting disruption to the Royal Mail, these strikes (and related labor actions) could potentially have a significant and adverse effect on Marketplaces and Payments businesses in the U.K., due to the higher cost of alternative delivery services.

In addition, we have outsourced certain functions to third-party outside providers, including customer support and product development functions, which are critical to our operations. If our service providers do not perform satisfactorily, our operations could be disrupted, which could result in user dissatisfaction and adversely affect our business, reputation and operating results. 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. In addition, the current recession in the U.S. and a worldwide economic slowdown may impact the ability of our outside service providers to fulfill their obligations to us or our users.

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 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 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, and its operating margins may decrease. In addition, negative publicity about, or negative experiences with, customer support for any of our businesses could cause our reputation to suffer or affect consumer confidence in our brands as a whole.

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, including small businesses who want to create and promote their own stores, can easily launch online sites at a nominal cost using commercially available software or partnering with any one of a number of successful ecommerce 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. Among others, these include: 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 websites such as craigslist (in which we own a minority equity stake), Google Base, Oodle.com and a number of International websites operated by Schibsted ASA. Our classifieds websites, including Kijiji, Marktplaats, mobile.de, Gumtree, Den Blå Avis and BilBasen offer classifieds listings in the U.S. and a variety of local international markets. In many markets in which they operate, including in the U.S., our classified platforms compete against more established online and offline classifieds platforms.

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 utilizing multiple sales channels, including the acquisition of 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.

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 Computers, Consumer Electronics, and Cameras & Photo category include: Abt Electronics, Amazon.com, Apple, B&H Photo, Best Buy, Buy.com, CNET, CompUSA, Computer Discount Warehouse, Crutchfield, Dell, Electronics Boutique, Fry s Electronics, Gamestop, Gateway, Hewlett Packard, J&R Music and Computer World, Lenovo, MicroWarehouse, Overstock.com, PC Connection, PCMall.com, Radio Shack, Ritz Camera, Sony, Tech Depot, Tiger Direct, Tweeter Home Entertainment, uBid, major wireless carriers, and a variety of online and offline computer, consumer electronics, and photography retailers.

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 ecommerce sites, such as Quelle and Otto in Germany, Leboncoin.fr and Price Minister in France, Tradus (owned by Naspers) in Poland, Yahoo-Kimo in Taiwan, Lotte, Naver and 11th Street in South Korea, Trading Post, OZtion and Aussie Bidder in Australia, 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 and retain buyers and sellers;
- volume of transactions and price and selection of goods;
- trust in the seller and the transaction;
- 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. 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 may be controversial with and lead to dissatisfaction among a number of our sellers, and which could harm our profitability.

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 several jurisdictions, we have taken actions designed to improve the safety of transactions on our websites. Beginning in June 2008, we have required users in the UK to offer PayPal as a payment alternative on most transactions on our localized UK website, and since October 2008, we require sellers on eBay.com to accept one or more accepted payment methods (currently PayPal, credit or debit cards processed through Internet merchant accounts, ProPay, Moneybookers and Paymate) and no longer allow any forms of paper payment, including checks and money orders, to be listed by sellers in the U.S. for most categories of items. While these initiatives are intended to improve and make safer our users buying experience and/or increase activity on our sites, certain users may be negatively affected by or react negatively to these changes. We currently face inquiries from government regulators in various jurisdictions related to such actions. For example, the Reserve Bank of Australia recently reviewed our policies requiring sellers to offer PayPal as a payment alternative on most transactions on our localized Australian website and precluding them from imposing a surcharge or any other fee for accepting PayPal or other payment methods. We may face similar inquiries from other government regulators in the future. Any negative reaction to these changes by our users or government authorities could, among other things, force us to change our operating practices in ways that could harm our business, operating results and profitability. 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 sellers 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 are increasingly becoming 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 markets for PayPal s product are intensely competitive and are subject to rapid technological change, including but not limited to: mobile payments, electronic funds transfer networks starting to allow Internet access, cross-border access to networks, creation of new networks, expansion of prepaid cards, and bill pay networks. PayPal competes with existing online and offline payment methods, including, among others:

- credit card merchant processors that offer their services to online merchants, including American Express, Chase Paymentech, First Data, and Wells Fargo; and payment gateways, including CyberSource and Authorize.net (which has merged with CyberSource);
- money remitters such as MoneyGram and Western Union;
- bill payment services, including CheckFree, a subsidiary of Fiserv;
- processors that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account, including Acculynk, eBillMe, Revolution Money and TeleCheck, a subsidiary of First Data, or to pay on credit;
- 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;
- mobile payments, including Obopay, Amazon Payments, Boku, Crandy, LUUP and Payforit;
- Amazon Payments, which offers online merchants the ability to accept credit card- and bank-funded payments from Amazon s base of online customers on the merchant s own website;

Google Checkout, which enables the online payment of merchants using credit cards; and

Payment services targeting users of social networks and online gaming, including Facebook and Hi5 credits, PlaySpan and Zong.
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, which is subject to additional regulations based on its licensure as a bank in Luxembourg. 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 has offered free payments processing on transactions in an amount proportionate to certain advertising spending with Google. 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 of Scotland s World Pay, ClickandBuy and UKash in the EU, NOCHEX and Moneybookers in the United Kingdom, Sofortüberweisung in Germany, CertaPay and HyperWallet in Canada, Paymate, BPay and POLI in Australia, Alipay, YeePay and 99 Bill 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 or through a commercial alliance or an acquisition, these processing and foreign exchange relationships could be negatively affected, or 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 intensely competitive and characterized by rapid technological change. We expect Skype s various communications competitors, including, for example, the providers of online communications products and telecommunications operators, to continue to improve the performance of their current products and introduce new products, software, services and technologies. Many telecommunications firms offer bundled services, where a group of services that may include cable or satellite television, internet services (e.g., cable modem or DSL), and telecommunications are offered for a single monthly price. If Skype s competitors successfully introduce new products, offer bundled services or enhance their existing products, or reduce the pricing for their 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.

Additionally, several 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.

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.

Our failure to cost-effectively manage certain aspects of our business could harm us.

We have expanded our headcount, facilities, and infrastructure in the U.S. and internationally, and anticipate that further expansion in certain areas will be required for some of our businesses. 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 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 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 improvements to our eBay websites, including an attempt to improve the user experience on those websites. These attempts at improvement 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.

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. 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.

Customer Account Billing. Our revenues depend on prompt and accurate billing processes. 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 seek to become more efficient in providing our customer support operations. We intend to provide an increased level of support (including an increasing amount of telephone support) in a cost-effective manner. If we are unable to provide customer support in a cost-effective manner, users of our websites may have negative experiences, current and future revenues could suffer, our costs may increase and our operating margins may decrease.

We must continue to effectively hire, train, and manage new employees. 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. Any capital investments that we may make will 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.

We may have exposure to greater than anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign tax jurisdictions and have structured our operations to reduce our effective tax rate. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing a number of investigations, audits and reviews by taxing authorities throughout the world, including with respect to our tax structure. Any adverse outcome of any such audit or review could have a negative effect on our business, operating results and financial condition, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient in the event that any taxing authority is successful in asserting tax positions that are contrary to our positions.

In addition, the economic downturn has reduced tax revenues for U.S federal and state governments, and proposals to increase taxes from corporate entities are being considered at various levels of government. Among the options has been a proposal to modify the federal tax rules related to the imposition of U.S federal corporate income taxes for companies operating in multiple U.S and foreign tax jurisdictions. If such proposals are enacted into law, this could increase our effective tax rate. A number of U.S states have likewise attempted to increase corporate tax revenues by taking an expansive view of corporate presence in order to attempt to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state. Companies that operate over the Internet, such as eBay, are a target of some of these state efforts. If more states were successful in applying direct taxes to Internet companies that are not present in the state, this could increase of our effective tax rate.

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., Germany and the U.K., 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 our user base, we must appeal to and acquire consumers who historically have used traditional means of commerce to purchase goods and may prefer Internet analogues to such traditional retail means to our offerings, such as the retailer s own website. 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.

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, malware 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 federal, state and common law rights, as well as a variety of administrative procedures. 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 these oppositions to Skype s applications were to be successful, Skype s ability to protect its brand against third-party infringers would be compromised. 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.

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;
- disruptions to our operations resulting from possible natural disasters, interruptions in utilities and similar events;
- adverse changes in the value of these properties, due to interest rate changes, changes in the commercial property markets, 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

None.

Item 3: Defaults Upon Senior Securities

Not applicable.

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

None

Item 5: Other Information

None.

Item 6: Exhibits

Exhibit 2.01*	Agreement for the Sale and Purchase of the Entire Share Capital of Skype Luxembourg Holdings S.A.R.L., Skype Inc. and Sonorit Holding, A.S., dated as of September 1, 2009 (as amended as of September 14, 2009, the Purchase Agreement), by and among eBay Inc., eBay International AG, Sonorit Holding, A.S. and Springboard Group S.A.R.L (formerly SLP III Cayman DS IV Holdings S.A.R.L.).
Exhibit 12.01	Statement regarding computation of ratio of earnings to fixed charges.
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.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Certain portions of this exhibit have been omitted and have been filed separately with the SEC pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities and Exchange Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

The summary disclosure above and the Purchase Agreement are being furnished to provide information regarding the terms of the sale of the Skype Companies and the Purchase Agreement. No representation, warranty, covenant or agreement described in the summary disclosure or contained in the Purchase Agreement is, or should be construed as, a representation or warranty by eBay to any investor, or covenant or agreement of eBay with any investor. The representations, warranties, covenants and agreements contained in the Purchase Agreement are solely for the benefit of eBay and the Buyer, may represent an allocation of risk between the parties, may be subject to standards of materiality that differ from those that are applicable to investors and may be qualified by disclosures between the parties.

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/ John Donahoe
John Donahoe
President and Chief Executive Officer

Date: October 27, 2009

Principal Financial Officer:

By: /s/ Robert H. Swan
Robert H. Swan
Senior Vice President and Chief Financial Officer

Date: October 27, 2009

Principal Accounting Officer:

By: /s/ Phillip P. DePaul
Phillip P. DePaul
Vice President, Chief Accounting Officer

Date: October 27, 2009

INDEX TO EXHIBITS

Exhibit 2.01*	Agreement for the Sale and Purchase of the Entire Share Capital of Skype Luxembourg Holdings S.A.R.L., Skype Inc. and Sonorit Holding, A.S., dated as of September 1, 2009 (as amended as of September 14, 2009, the Purchase Agreement), by and among eBay Inc., eBay International AG, Sonorit Holding, A.S. and Springboard Group S.A.R.L (formerly SLP III Cayman DS IV Holdings S.A.R.L.).
Exhibit 12.01	Statement regarding computation of ratio of earnings to fixed charges.
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.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Certain portions of this exhibit have been omitted and have been filed separately with the SEC pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities and Exchange Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

The summary disclosure above and the Purchase Agreement are being furnished to provide information regarding the terms of the sale of the Skype Companies and the Purchase Agreement. No representation, warranty, covenant or agreement described in the summary disclosure or contained in the Purchase Agreement is, or should be construed as, a representation or warranty by eBay to any investor, or covenant or agreement of eBay with any investor. The representations, warranties, covenants and agreements contained in the Purchase Agreement are solely for the benefit of eBay and the Buyer, may represent an allocation of risk between the parties, may be subject to standards of materiality that differ from those that are applicable to investors and may be qualified by disclosures between the parties.