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, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 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

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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.

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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, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 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.

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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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	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

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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

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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

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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.

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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.

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(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.

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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.

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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							