

# Q3-10 Financial Highlights

October 20, 2010



This presentation contains non-GAAP measures relating to the company's performance. You can find the reconciliation of those measures to the nearest comparable GAAP measures in the appendix at the end of this presentation.

This presentation may make forward-looking statements relating to our future performance that are based on our current expectations, forecasts and assumptions and involve risks and uncertainties. These statements include, but are not limited to, statements regarding expected financial results for the fourth quarter and full year 2010, and the future growth in the Payments and Marketplaces businesses.

Our actual results may differ materially from those discussed in this call for a variety of reasons, including, but not limited to, continuing the impact of the global economic downturn; changes in political, business, and economic conditions; foreign exchange rate fluctuations; the impact and integration of recent and future acquisitions; our increasing need to grow revenues from existing users in established markets; an increasingly competitive environment for our businesses; the complexity of managing an increasingly large enterprise, with a broad range of businesses; our need to manage regulatory, tax, IP and litigation risks (including risks specific to PayPal, Bill Me Later at different stage of maturity and the financial industry); and our need to upgrade our technology and customer service infrastructure at reasonable cost while adding new features and maintaining site stability.

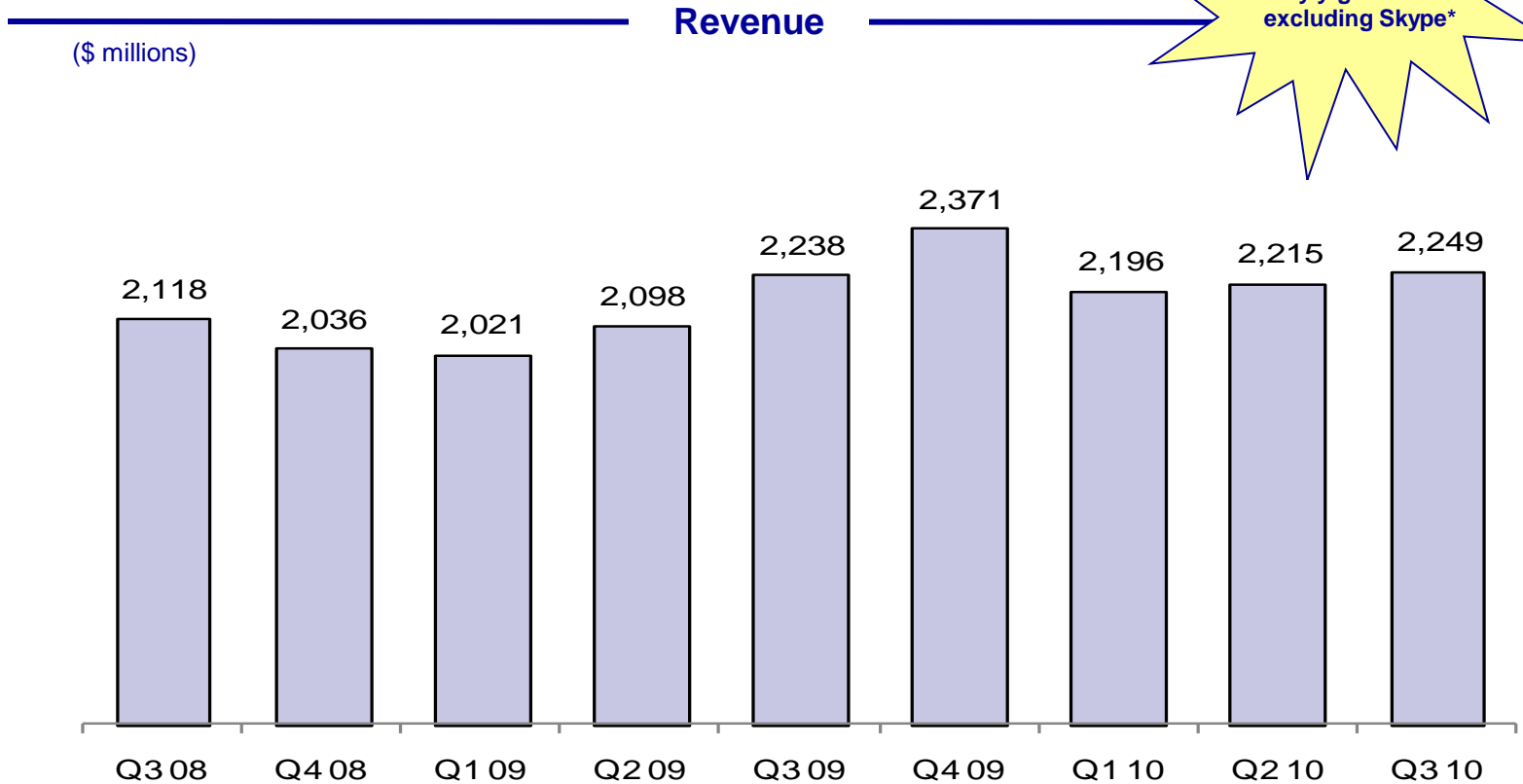
You can find more information about factors that could affect our operating results in our most recent annual report on our Form 10-K and our subsequent quarterly reports on Form 10-Q (available at <http://investor.ebayinc.com>). You should not rely on any forward-looking statements, and we assume no obligation to update them. All information in the presentation is as of October 20, 2010, and we do not intend, and undertake no duty, to update this presentation.

# Q3-10 Summary

- **Continued to show global progress in Q3**
  - **Top and bottom line results above the high end of guidance**
  - **PayPal continued strong TPV & revenue growth...gained share across ecommerce ...increased penetration on eBay**
  - **Marketplaces turnaround remains on track. Solid sold items growth, partially offset by lower ASPs**
  - **Generated free cash flow of \$580M**
  - **Repurchased ~\$300M of eBay shares...Board increased share repurchase authorization by an additional \$2B to offset dilution from our equity compensation programs**
- **Full year outlook: Raising 2010 guidance for both revenue and EPS**

# Q3-10 Summary... Revenue

10% reported  
y/y growth  
excluding Skype\*

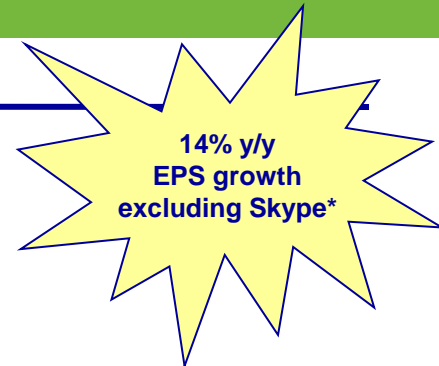


Reported Y/Y Growth	12%	-7%	-8%	-4%	6%	16%	9%	6%	1%
Organic Y/Y Growth*	10%	-1%	-1%	1%	5%	12%	11%	13%	12%

\*Calculation of revenue excluding Skype and Organic Y/Y Growth is included in the Appendix of this presentation

# Q3-10 Summary... Non-GAAP EPS

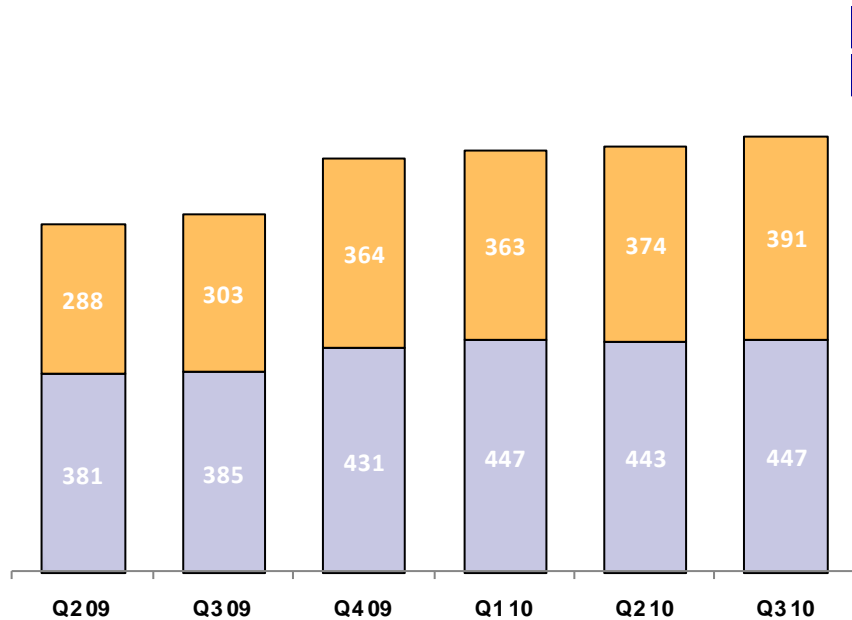
## Non-GAAP EPS\*



Reported Y/Y Growth	11%	-9%	-7%	-14%	-16%	9%	8%	8%	4%
Non-GAAP Op. Margin*	31.8%	32.8%	30.7%	28.7%	28.4%	29.3%	30.6%	29.1%	28.7%

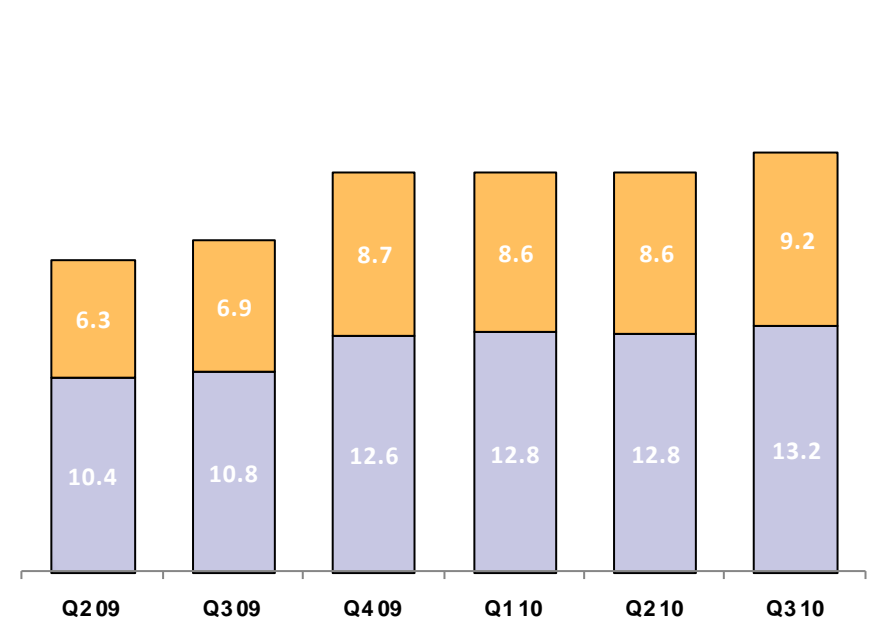
# Business Update... Payments Revenue and Volume

**Revenue**  
(\$ millions)



\$ millions	<b>669</b>	<b>688</b>	<b>796</b>	<b>809</b>	<b>817</b>	<b>838</b>
y/y growth	<b>11%</b>	<b>15%</b>	<b>28%</b>	<b>26%</b>	<b>22%</b>	<b>22%</b>
Fx-neutral y/y growth	<b>15%</b>	<b>19%</b>	<b>30%</b>	<b>26%</b>	<b>23%</b>	<b>23%</b>

**TPV**  
(\$ billions)



\$ billions	<b>16.7</b>	<b>17.7</b>	<b>21.4</b>	<b>21.3</b>	<b>21.4</b>	<b>22.4</b>
y/y growth	<b>12%</b>	<b>19%</b>	<b>34%</b>	<b>35%</b>	<b>28%</b>	<b>26%</b>
Fx-neutral y/y growth	<b>19%</b>	<b>23%</b>	<b>30%</b>	<b>31%</b>	<b>29%</b>	<b>29%</b>

# Business Update... Payments Operating Metrics

	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
<b>Active Registered Accounts</b> (millions)						
Global Active Accounts	75.4	78.0	81.0	84.3	87.2	90.5
Y/Y Growth	20%	19%	15%	15%	16%	16%
<b>TPV</b> (\$ millions)						
On eBay	7,386	7,582	8,940	8,581	8,055	8,204
Y/Y Growth	-4%	4%	16%	18%	9%	8%
Fx-Neutral Y/Y Growth***	4%	9%	12%	14%	10%	11%
Merchant Services	9,119	9,901	12,112	12,533	13,051	13,855
Y/Y Growth	26%	31%	50%	49%	43%	40%
Fx-Neutral Y/Y Growth***	32%	34%	46%	46%	44%	42%
Bill Me Later*	200	199	309	228	276	306
Y/Y Growth	N/A	N/A	N/A	18%	38%	53%
<b>On eBay Penetration Rate</b>						
Global	64.4%	65.7%	65.9%	67.8%	68.6%	69.8%
<b>Transaction Rates</b>						
Global Take Rate	3.77%	3.67%	3.54%	3.59%	3.60%	3.57%
Transaction Expense	1.15%	1.16%	1.14%	1.13%	1.17%	1.18%
Transaction Loss	0.30%	0.25%	0.20%	0.18%	0.17%	0.17%
Transaction Margin**	61.5%	61.6%	62.1%	63.5%	62.8%	62.2%
<b>Payments Segment Margin</b>	16.1%	14.8%	17.8%	22.6%	19.9%	19.3%

- TPV growth driven by increases in the number of merchants, share of checkout and penetration on eBay

- Trxn margin of 62.2%. Y/Y impact driven by:
  - Take rate: declined due to shift to larger merchants and business mix shift, partially offset by international growth
  - Trxn expense: increased due to card rate increases, partially offset by geographic mix
  - Trxn loss: improved due to better fraud detection/prevention and buyer protection program shifting from PayPal to eBay, partially offset by expansion of PayPal's Merchant Services protection program

- Segment margin: 450 bps increase due to operating leverage, improvement in transaction margin and BML

\* Represents TPV generated when BML is listed as a separate payment option by the merchant. BML within PayPal's wallet is included in Merchant Services TPV

\*\*Transaction margin is calculated as the transaction take rate less transaction expense less transaction loss, divided by transaction take rate

\*\*\* On-eBay FX-neutral TPV growth rates, Merchant Services FX-neutral TPV growth rates and Merchant Services reported TPV for 3Q'08 - 2Q'10 were restated to conform to current period classification

# Business Update... Bill Me Later Metrics

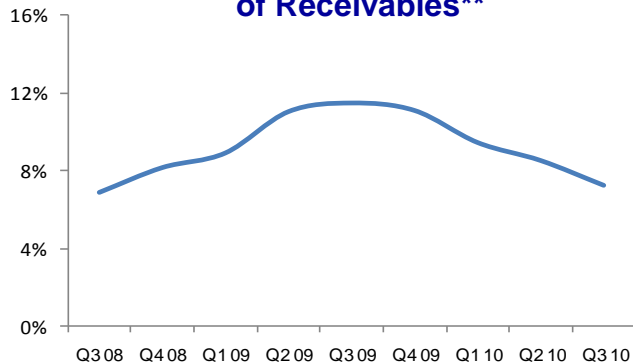
Portfolio Balance: \$767M\*

**Avg. Customer FICO Score**



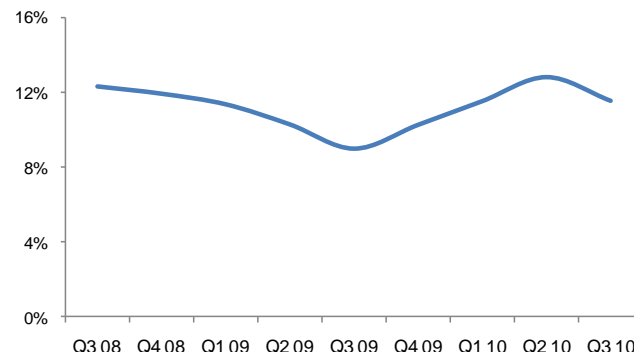
- Continued trend of high quality customer acquisitions
- Used eBay Inc. data to better target potential users and reduce declines without taking on additional risk

**Net Charge-Offs as % of Receivables\*\***



- Net charge-offs declined by 130 bps q/q as loans made under tighter underwriting standards continue to become a larger part of the portfolio

**Risk Adjusted Margin\*\*\***



- Q/Q decline in risk adjusted margin due to moving from a 90-day financing to a 6-month financing to comply with the CARD Act

## BML Operating Metrics

	<u>Q2 09</u>	<u>Q3 09</u>	<u>Q4 09</u>	<u>Q1 10</u>	<u>Q2 10</u>	<u>Q3 10</u>
Portfolio Balance (\$M)	553	561	673	641	691	767
Risk Adjusted Margin	10.3%	9.0%	10.3%	11.5%	12.8%	11.6%
Net Charge-offs	11.1%	11.5%	11.1%	9.5%	8.6%	7.3%

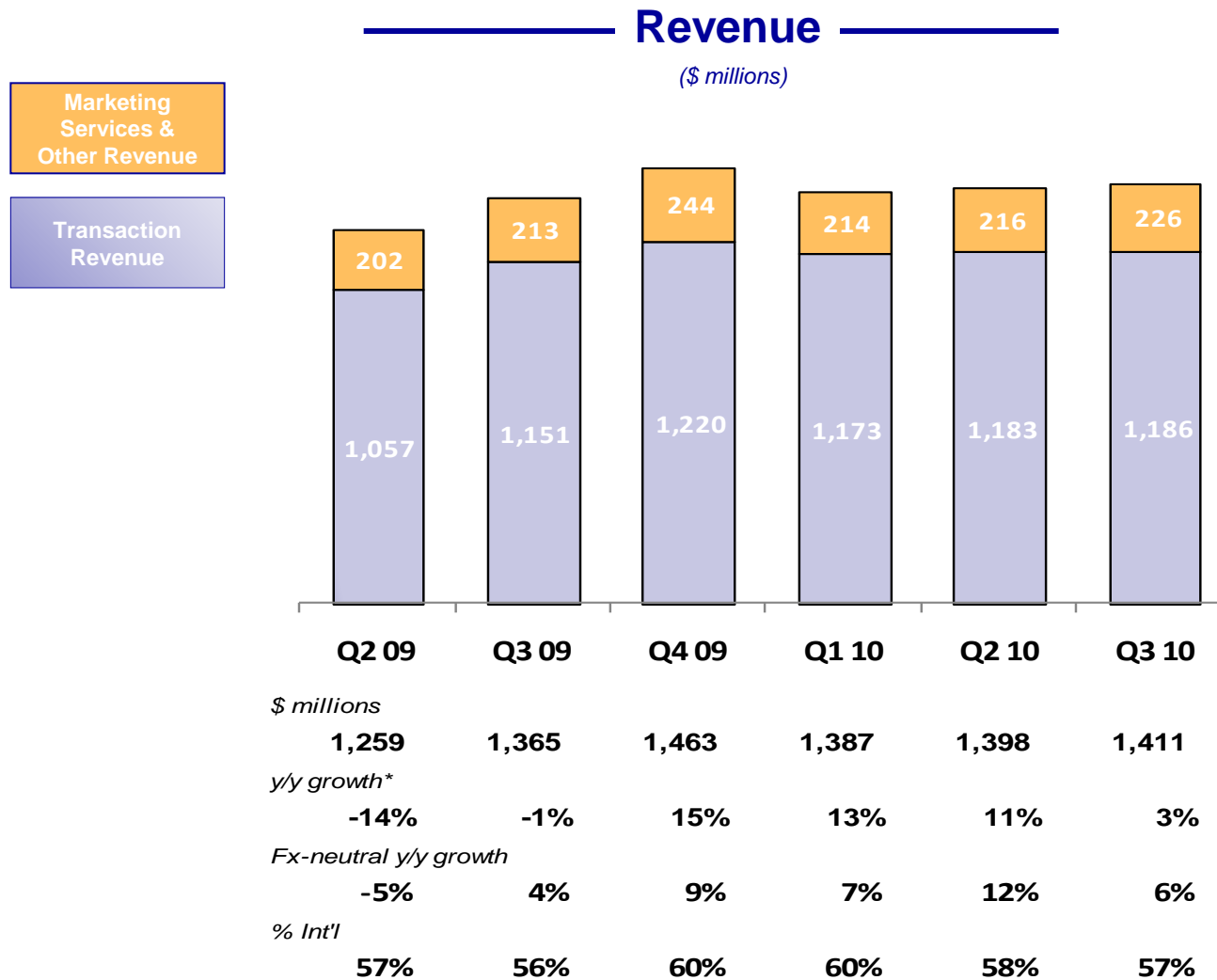
\*Gross receivables balance as of 9/30/10

\*\* Represents the annualized ratio of BML net credit losses relative to average loans receivable for the quarter

\*\*\* Risk adjusted margin represents the annualized ratio of Bill Me Later revenue, excluding contra-revenue incentives to customers or merchants, less cost of funds less net credit and fraud losses relative to average loans receivable for the 3-month period



# Business Update... Marketplaces Revenue

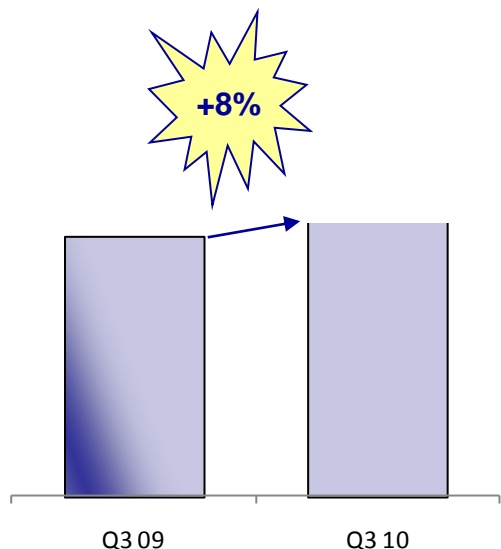


\* y/y FX-neutral growth ex-Gmarket was 7% in Q2-10, 3% in Q1-10, 4% in Q4-09, (2%) in Q3-09 and (7%) in Q2-09



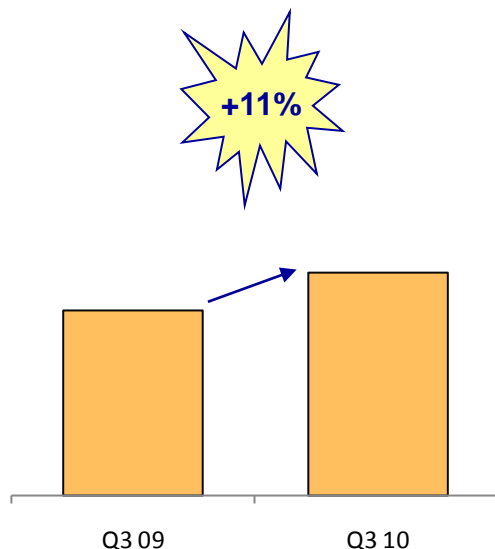
# Business Update... Marketplaces Marketing Services & Other revenue grew 11% y/y (FX neutral)

## Classifieds



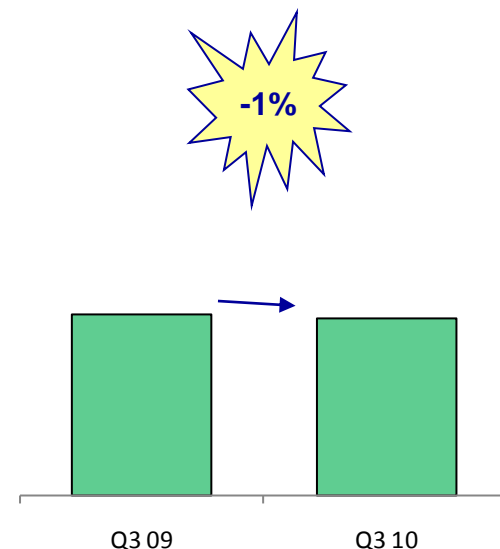
- FX neutral revenue growth of 15% (11% in Q2)
- Average monthly metrics:
  - Unique Visitors: 100M, +14% y/y
  - Visits: 314M, +21% y/y
  - Page Views: 5.6B, 17% y/y
- Strong growth from Canada and Mobile.de

## Advertising



- FX neutral revenue growth of 15% (14% in Q2)
- Strength in international display advertising

## SDC/Other



- FX neutral revenue growth 0% (6% in Q2)
- SDC growth from new merchant acquisition in distributed commerce, offset by pressure from search engine algorithm changes

# Business Update... Marketplaces Operating Metrics

	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
<b>Active Users</b> (millions)						
<b>Global Active Users</b>	88.4	89.2	90.1	89.5	91.8	93.2
<i>Y/Y Growth</i>	2%	2%	3%	1%	4%	4%
<b>Sold Items</b>						
<b>Y/Y Growth in Sold Items*</b>	5.6%	30.9%	31.6%	32.4%	28.0%	8.5%
<b>GMV</b> (\$ millions)						
<b>US Non-Vehicles GMV</b>	4,688	4,805	5,302	5,130	4,802	4,900
<i>Y/Y Growth</i>	-8%	-3%	4%	6%	2%	2%
<b>Int'l Non-Vehicles GMV</b>	6,436	7,386	8,933	8,241	7,730	7,691
<i>Y/Y Growth</i>	-10%	16%	40%	38%	20%	4%
<i>Fx Neutral Y/Y Growth**</i>	6%	27%	28%	24%	21%	8%
<b>Non-Vehicles GMV</b>	11,125	12,191	14,235	13,371	12,531	12,591
<i>Y/Y Growth</i>	-10%	7%	24%	24%	13%	3%
<i>Fx Neutral Y/Y Growth***</i>	0%	14%	17%	16%	13%	6%
<b>Vehicles GMV</b>	2,302	2,388	2,095	2,021	2,189	2,157
<i>Y/Y Growth</i>	-32%	-18%	-4%	-3%	-5%	-10%
<i>Fx Neutral Y/Y Growth</i>	-25%	-14%	-8%	-7%	-4%	-7%
<b>Fixed price as a % of GMV</b>	51%	56%	56%	57%	59%	60%
<b>Segment Margin</b>						
<b>Marketplaces Segment Margin</b>	42.5%	42.0%	40.4%	42.0%	40.3%	39.7%

Active user y/y growth from the US, UK and Australia

Sold items y/y growth (ex-Gmarket): accelerated 2 pts, driven by US (2pts) and UK (3 pts)

Non-vehicles GMV:

US - lower ASPs due to broader selection of well-priced inventory, slower growth in cross border trade into Europe due to weakening of the Euro and British Pound

Int'l - strength in Europe, partially offset by decreased cross border trade from China due to weakening of the Euro and British Pound and slower growth in Korea as better optimize coupons

Segment margin declined y/y primarily due to the buyer protection programs and FX, partially offset by operational excellence initiatives

\* Sold items growth ex-Gmarket was 12.7% in Q3-10, 11.1% in Q2-10, 12.9% in Q1-10, 10.7% in Q4-09, 8.2% in Q3-09 and 2.7% in Q2-09

\*\* Int'l FX-neutral non-vehicles GMV ex Gmarket growth rate was 9% in Q2-10, 9% in Q1-10, 11% in Q4-09, 10% in Q3-09 and 4% in Q2-09

\*\*\* Total FX-neutral non-vehicles GMV ex Gmarket growth rate was 6% in Q2-10, 8% in Q1-10, 8% in Q4-09, 4% in Q3-09 and -1% in Q2-09

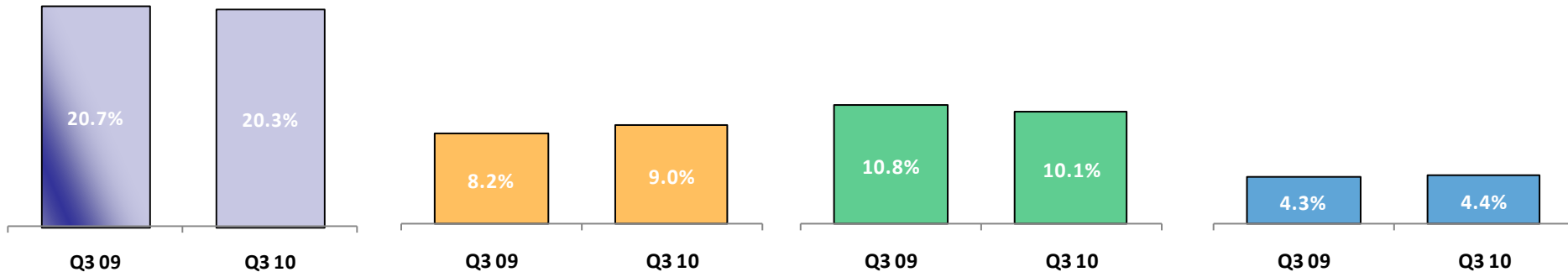
# Business Update... Operating Expenses\*

## Sales & Marketing (% of Revenue)

## Product Development (% of Revenue)

## General & Admin. (% of Revenue)

## Prov. for Trxn and Loan Loss\*\* (% of Revenue)



- S&M decreased due to productivity gains, partially offset by Skype divestiture

- PD increased due to investments in the top technology priorities and Skype divestiture

- G&A benefits primarily driven by productivity gains, partially offset by Skype divestiture

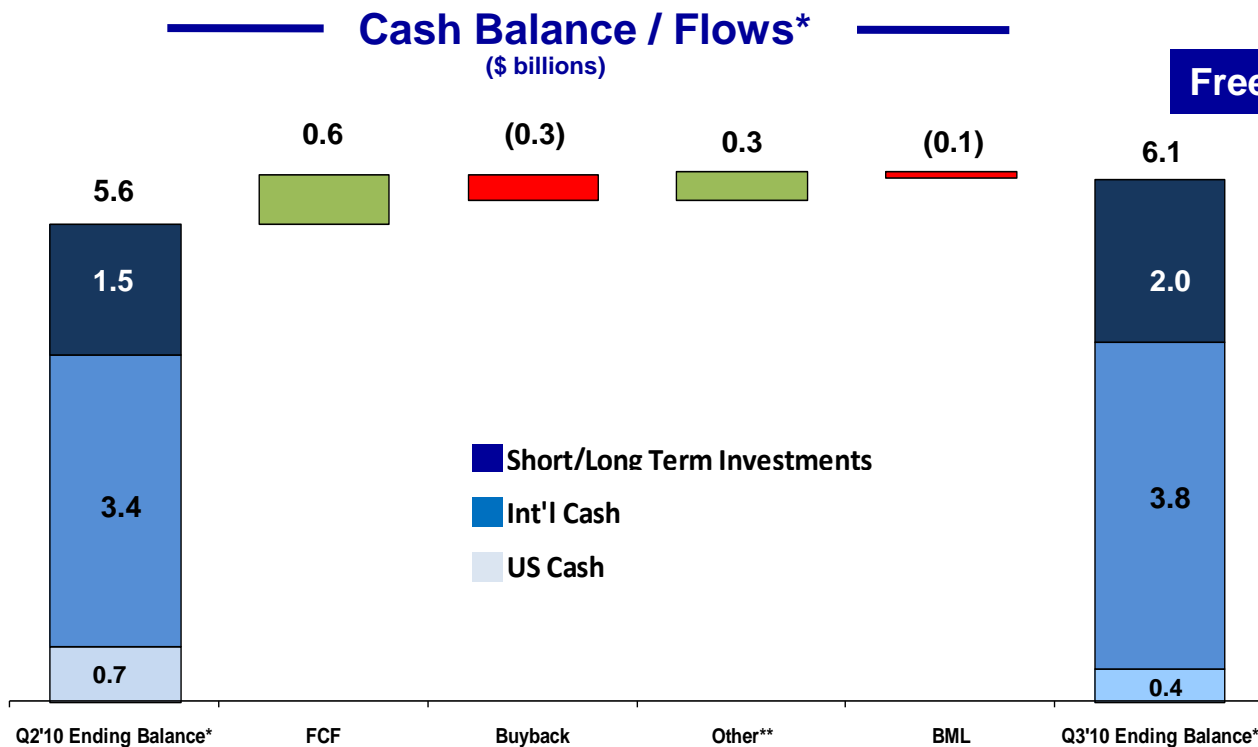
- Prov. for Trxn and Loan Loss increased due to increased customer protection programs and Skype divestiture, partially offset by better risk management in Payments

Q3 Non-GAAP Op Inc: \$645M

Q3 Non-GAAP Net Inc: \$531M

# Q3-10 Cash Flow / Capital Allocation...

Maintained a strong balance sheet ...



## Free Cash Flow / Other Movements

- Generated strong FCF of \$580M
- Funded BML loan portfolio growth predominantly using US cash
- Repurchased ~13M shares at an average price of \$22.89
- Total US cash and non equity investments ~\$0.9B

... but limited US capacity/flexibility

\*Cash balances/flows include cash, cash equivalents, and investments (excluding equity investments)

\*\* Other includes FX impact, acquisitions, changes to debt facilities, employee stock plans

# We are announcing a series of steps to increase financial flexibility...

- **Funding BML growth...**
  - **PayPal Lux bank to fund new BML accounts...launched 9/1/10**
  - **Board approved a potential commercial paper program of up to \$1B to fund BML accounts prior to 9/1/10**
- **Board approved up to \$1.5B in potential term debt financing under our existing shelf registration statement**
  - **Capitalize on low cost financing ...maintain flexibility**
- **Board increased share repurchase authorization by an additional \$2B to offset dilution from our equity compensation programs**

# Increasing Guidance : FY 2010

Update to full year 2010 guidance provided on 7/21/10

	Revenue	Non-GAAP EPS*
FY'10 Guidance 7/21/10	\$8.8 - \$9.0B	\$1.60 - \$1.65
PayPal/Marketplaces	~ \$120	~ \$0.05
FX impact	~ \$80	~ \$0.01
FY'10 Guidance 10/20/10	\$9.05 - \$9.15B	\$1.67 - \$1.70
<i>YoY Growth x-Skype</i>	12-13%	14-16%

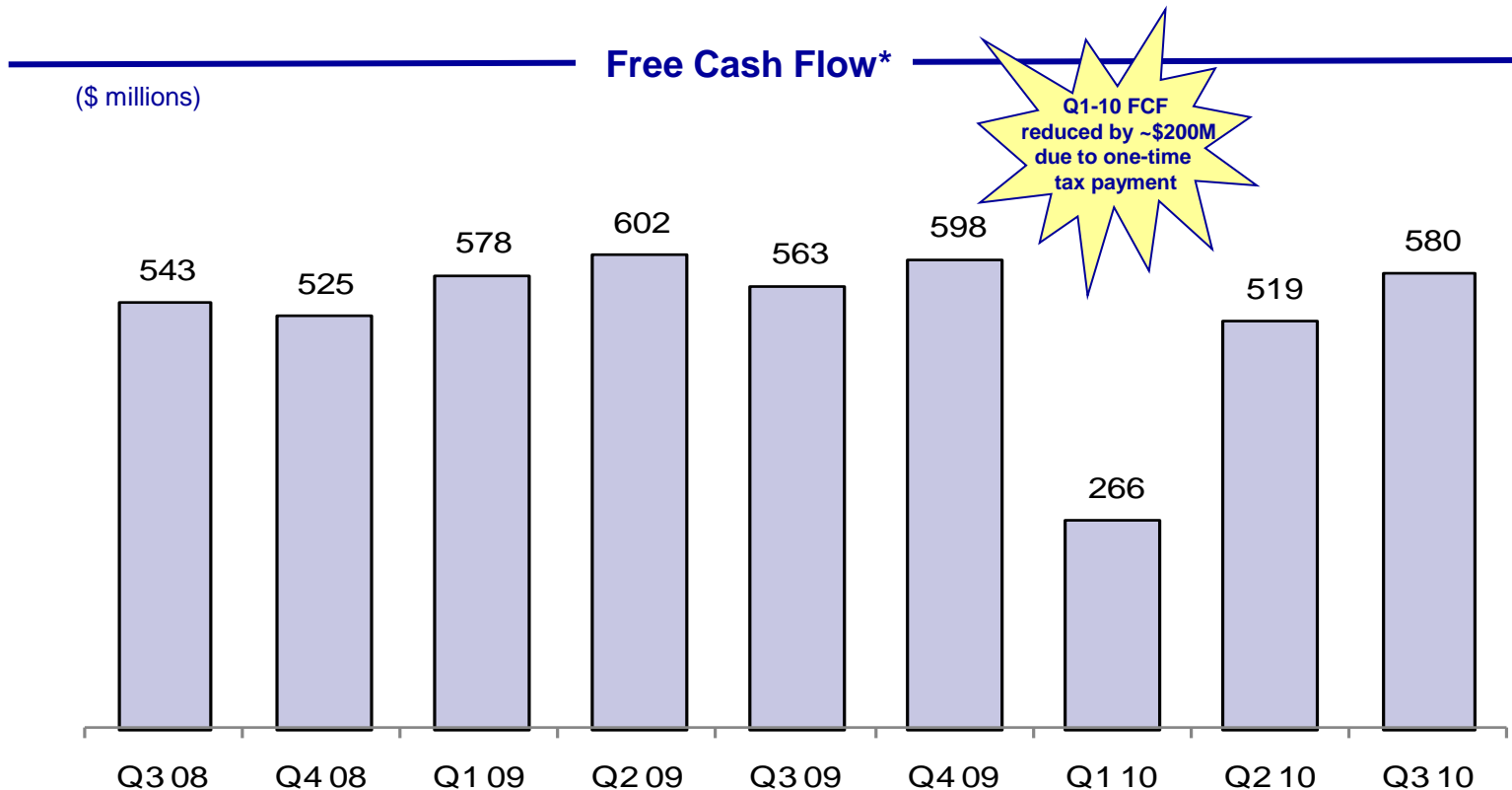
# Summary

- **Strong performance with top & bottom line results above expectations**
- **Our global footprint is expanding...innovation is accelerating... ops excellence has freed up capacity to invest in the business and strengthen our competitive position**
- **Repurchased ~ \$300M of eBay shares in Q3; increased authorization by an additional \$2B to support a dilution neutral philosophy**
- **Increased financial flexibility by initiating offshore funding vehicle for BML portfolio growth; Board approved potential commercial paper program of up to \$1B and term debt financing up to \$1.5B**
- **Raised full year guidance for revenue and EPS**

# Q & A

# Appendix

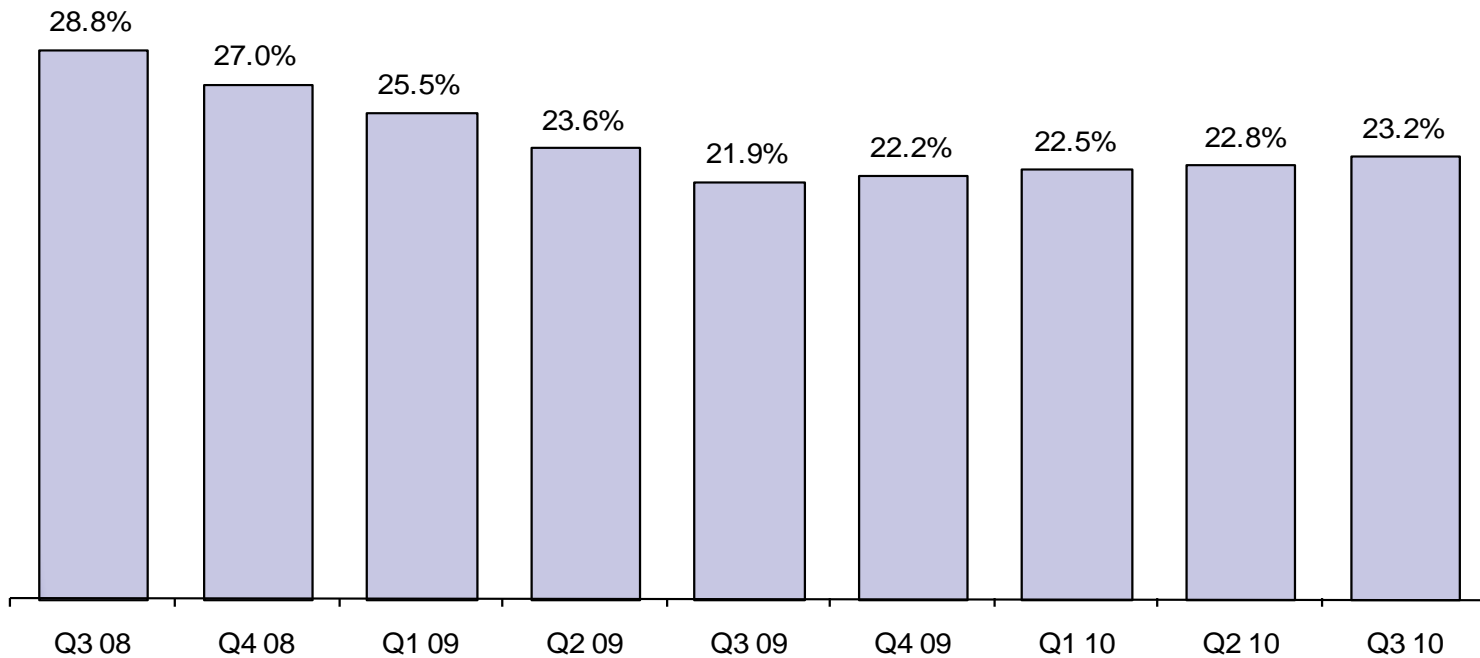
# Q3-10 Summary... Free Cash Flow Generation



Reported Y/Y Growth	6%	-21%	-9%	-2%	4%	14%	-54%	-14%	3%
Capex % of Revenue	7%	8%	5%	6%	8%	7%	7%	9%	7%
FCF % of Revenue	26%	26%	29%	29%	25%	25%	12%	23%	26%

# Q3-10 Summary... RoIC

## Return on Invested Capital\*



\*Trailing 12-month Pro-Forma Net Operating Profits After Tax / (Average Total Assets – 95% of Average Cash, Cash Equivalents, and Investments - Average Current Liabilities)  
Calculation of Return on Invested Capital is included in the Appendix of this presentation

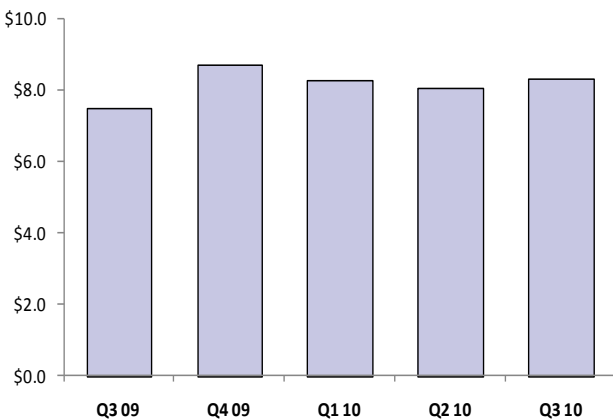
## Guidance : Q4

Q4'10 Guidance			
Revenue		Non-GAAP EPS*	
<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
\$2.39B	\$2.49B	\$0.45	\$0.48
Y/Y Growth (ex Skype)*			
6%	10%	9%	16%

# Business Update... GMV Based Formats

## Fixed Price

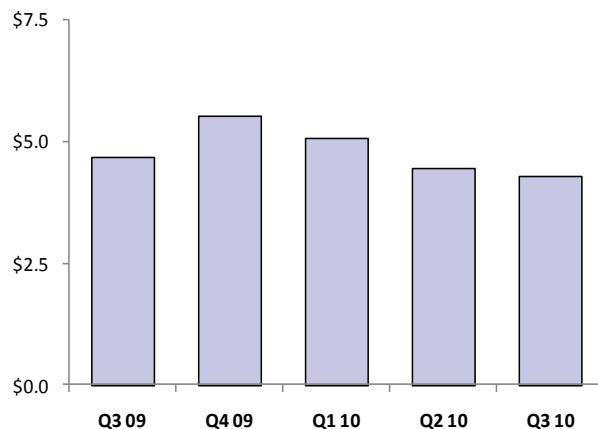
(\$ billions)



\$ billions					
	<b>\$7.5</b>	<b>\$8.7</b>	<b>\$8.3</b>	<b>\$8.1</b>	<b>\$8.3</b>
Y/Y Growth					
	<b>30%</b>	<b>43%</b>	<b>43%</b>	<b>28%</b>	<b>11%</b>
FX-Neutral Y/Y Growth					
	<b>39%</b>	<b>35%</b>	<b>33%</b>	<b>27%</b>	<b>13%</b>
% of Total FX-Neutral GMV					
	<b>52%</b>	<b>53%</b>	<b>53%</b>	<b>54%</b>	<b>56%</b>

## Auctions

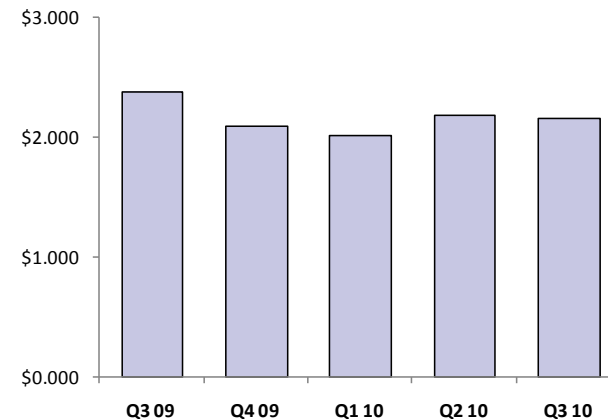
(\$ billions)



\$ billions					
	<b>\$4.7</b>	<b>\$5.5</b>	<b>\$5.1</b>	<b>\$4.5</b>	<b>\$4.3</b>
Y/Y Growth					
	<b>-16%</b>	<b>3%</b>	<b>2%</b>	<b>-7%</b>	<b>-8%</b>
FX-Neutral Y/Y Growth					
	<b>-12%</b>	<b>-3%</b>	<b>-3%</b>	<b>-6%</b>	<b>-5%</b>
% of Total FX-Neutral GMV					
	<b>32%</b>	<b>34%</b>	<b>34%</b>	<b>31%</b>	<b>29%</b>

## Vehicles

(\$ billions)



\$ billions					
	<b>\$2.4</b>	<b>\$2.1</b>	<b>\$2.0</b>	<b>\$2.2</b>	<b>\$2.2</b>
Y/Y Growth					
	<b>-18%</b>	<b>-4%</b>	<b>-3%</b>	<b>-5%</b>	<b>-10%</b>
FX-Neutral Y/Y Growth					
	<b>-14%</b>	<b>-8%</b>	<b>-7%</b>	<b>-4%</b>	<b>-7%</b>
% of Total FX-Neutral GMV					
	<b>16%</b>	<b>13%</b>	<b>13%</b>	<b>15%</b>	<b>15%</b>

Excluding Gmarket, Fx-neutral fixed price growth rate was 15% in Q3-10, 15% in Q2-10, 17% in Q1-10 and 18% in Q4-09

# Calculation of Organic Revenue Growth

	<u>Mar 31, 2008</u>	<u>Jun 30, 2008</u>	<u>Sept 30, 2008</u>	<u>Dec 31, 2008</u>
Total revenue growth	24%	20%	12%	(7%)
Acquisition impact	(2%)	0%	0%	(2%)
Foreign currency impact	<u>(5%)</u>	<u>(5%)</u>	<u>(2%)</u>	<u>8%</u>
Total organic revenue growth	<u>17%</u>	<u>15%</u>	<u>10%</u>	<u>(1%)</u>

	<u>Mar 31, 2009</u>	<u>Jun 30, 2009</u>	<u>Sept 30, 2009</u>	<u>Dec 31, 2009</u>
Total revenue growth	(8%)	(4%)	6%	17%
Acquisition/Disposition impact	(2%)	(3%)	(5%)	(1%)
Foreign currency impact	<u>9%</u>	<u>8%</u>	<u>4%</u>	<u>(4%)</u>
Total organic revenue growth	<u>(1%)</u>	<u>1%</u>	<u>5%</u>	<u>12%</u>

	<u>Mar 31, 2010</u>	<u>Jun 30, 2010</u>	<u>Sept 30, 2010</u>
Total revenue growth	9%	6%	1%
Acquisition/Disposition impact	5%	6%	9%
Foreign currency impact	<u>(3%)</u>	<u>1%</u>	<u>2%</u>
Total organic revenue growth	<u>11%</u>	<u>13%</u>	<u>12%</u>

# Reconciliation of Quarterly GAAP to Non-GAAP Net Income / EPS

	Three Months Ended								
	Sep 30, 2008	Dec 31, 2008	Mar 31, 2009	Jun 30, 2009	Sept 30, 2009	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010
	(in millions, except per share data)								
GAAP net income (loss)	\$ 492.2	\$ 367.2	\$ 357.1	\$ 327.3	\$ 349.7	\$ 1,354.9	\$ 397.7	\$ 412.2	\$ 431.9
Stock-based compensation expense	90.3	82.6	113.8	96.4	92.5	92.0	102.1	92.0	93.8
Employer payroll taxes on stock-based compensation	0.5	0.6	2.6	0.9	0.9	1.0	8.5	1.2	2.5
Amortization of acquired intangible assets (1)	59.4	82.2	74.6	75.6	86.5	78.1	65.0	59.0	55.5
Restructuring	-	49.1	6.6	17.7	12.7	1.3	8.6	8.9	3.0
Joltid settlement	-	-	-	-	-	343.2	-	-	-
Skype sale and transaction related items	-	-	-	-	-	(1,407.5)	28.0	-	-
Amortization of intangibles and stock-based compensation for Skype	-	-	-	-	-	-	4.3	9.4	9.5
Impairment of goodwill	-	-	-	-	-	-	-	-	-
Contingencies associated with the sale of Skype that were settled during the quarter	-	-	-	-	-	-	-	-	(10.0)
Income taxes associated with certain non-GAAP entries	(50.3)	(57.9)	(54.8)	(39.3)	(40.7)	122.8	(60.0)	(52.5)	(55.6)
Non-GAAP net income	<u>\$ 592.1</u>	<u>\$ 523.8</u>	<u>\$ 499.9</u>	<u>\$ 478.6</u>	<u>\$ 501.6</u>	<u>\$ 585.8</u>	<u>\$ 554.2</u>	<u>\$ 530.2</u>	<u>\$ 530.6</u>
Non-GAAP net income attributable to Skype			(30.2)	(38.6)	(43.0)	(35.2)	-	-	-
Non-GAAP net income excluding Skype (2)			<u>\$ 469.7</u>	<u>\$ 440.0</u>	<u>\$ 458.6</u>	<u>\$ 550.6</u>	<u>\$ 554.2</u>	<u>\$ 530.2</u>	<u>\$ 530.6</u>
Non-GAAP net income per diluted share	<u>\$ 0.46</u>	<u>\$ 0.41</u>	<u>\$ 0.39</u>	<u>\$ 0.37</u>	<u>\$ 0.38</u>	<u>\$ 0.44</u>	<u>\$ 0.42</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>
Non-GAAP net income per diluted share excluding Skype			<u>\$ 0.36</u>	<u>\$ 0.34</u>	<u>\$ 0.35</u>	<u>\$ 0.42</u>			
Shares used in non-GAAP diluted share calculation	<u>1,297</u>	<u>1,284</u>	<u>1,288</u>	<u>1,300</u>	<u>1,311</u>	<u>1,323</u>	<u>1,326</u>	<u>1,330</u>	<u>1,328</u>

(1) Includes amortization of acquired intangible assets within cost of net revenues and operating expenses.

(2) The presentation of non-GAAP net income excluding Skype, does not include Skype's results of operations that were consolidated in our 2009 results through the date of sale (November 19, 2009).

# Reconciliation of GAAP to Non-GAAP Quarterly Operating Margin

	Three Months Ended								
	Sept 30, 2008	Dec 31, 2008	Mar 31, 2009	Jun 30, 2009	Sept 30, 2009	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010
	(in millions, except percentages)								
GAAP operating income (loss)	\$ 524.1	453.5	\$ 422.8	\$ 411.7	\$ 442.9	\$ 179.4	\$ 488.6	\$ 484.6	490.2
Stock-based compensation expense	90.3	82.6	113.8	96.4	92.5	92.0	102.1	92.0	93.8
Employer payroll taxes on stock-based compensation	0.5	0.6	2.6	0.9	0.9	1.0	8.5	1.2	2.5
Amortization of acquired intangible assets (1)	59.4	82.2	74.6	75.6	86.5	78.1	65.0	59.0	55.5
Restructuring	-	49.1	6.6	17.7	12.7	1.3	8.6	8.9	3.0
Joltid settlement	-	-	-	-	-	343.2	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	-	-
Non-GAAP operating income	<u>\$ 674.3</u>	<u>668.0</u>	<u>\$ 620.4</u>	<u>\$ 602.3</u>	<u>\$ 635.5</u>	<u>\$ 695.0</u>	<u>\$ 672.8</u>	<u>\$ 645.7</u>	<u>645.0</u>
Revenues	\$ 2,118	2,036	\$ 2,020	\$ 2,098	\$ 2,238	\$ 2,371	\$ 2,196	\$ 2,215	2,249
GAAP operating margin	24.7%	22.3%	20.9%	19.6%	19.8%	7.6%	22.2%	21.9%	21.8%
Non-GAAP operating margin	31.8%	32.8%	30.7%	28.7%	28.4%	29.3%	30.6%	29.1%	28.7%

(1) Includes amortization of acquired intangible assets within cost of net revenues and operating expenses.

# Calculation of Free Cash Flow

	<b>Three Months Ended</b>				
	<b>Mar 31, 2008</b>	<b>Jun 30, 2008</b>	<b>Sept 30, 2008</b>	<b>Dec 31, 2008</b>	<b>Full Year 2008</b>
	(in millions)				
GAAP operating cash flow	\$ 766.2	\$ 738.4	\$ 693.4	\$ 684.0	\$ 2,882.0
Purchases of property and equipment, net	<u>(134.6)</u>	<u>(121.7)</u>	<u>(150.4)</u>	<u>(159.2)</u>	<u>(565.9)</u>
Free cash flow	<u>\$ 631.6</u>	<u>\$ 616.7</u>	<u>\$ 543.0</u>	<u>\$ 524.8</u>	<u>\$ 2,316.1</u>

	<b>Three Months Ended</b>				
	<b>Mar 31, 2009</b>	<b>Jun 30, 2009</b>	<b>Sept 30, 2009</b>	<b>Dec 31, 2009</b>	<b>Full Year 2009</b>
	(in millions)				
GAAP operating cash flow	\$ 668.5	\$ 730.7	\$ 738.2	\$ 770.6	\$ 2,908.0
Purchases of property and equipment, net	<u>(90.9)</u>	<u>(128.4)</u>	<u>(174.8)</u>	<u>(172.9)</u>	<u>(567.0)</u>
Free cash flow	<u>\$ 577.6</u>	<u>\$ 602.3</u>	<u>\$ 563.4</u>	<u>\$ 597.7</u>	<u>\$ 2,341.0</u>

	<b>Three Months Ended</b>		
	<b>Mar 31, 2010</b>	<b>Jun 30, 2010</b>	<b>Sept 30, 2010</b>
	(in millions)		
GAAP operating cash flow	\$ 418.3	\$ 726.4	747.1
Purchases of property and equipment, net	<u>(152.3)</u>	<u>(207.2)</u>	<u>(167.0)</u>
Free cash flow	<u>\$ 266.0</u>	<u>\$ 519.2</u>	<u>580.1</u>

# Reconciliation of GAAP to Non-GAAP Quarterly Statement of Income

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2010		
	Reported	Non-GAAP Entries	Non-GAAP	Reported	Non-GAAP Entries	Non-GAAP
	(in millions, except per share data and percentages)					
Net revenues	\$ 2,237.9	\$ -	\$ 2,237.9	\$ 2,249.5	\$ -	\$ 2,249.5
Cost of net revenues	643.9	(11.1) (a)	619.1	640.3	(11.9) (a)	618.8
		(13.7) (c)			(9.6) (c)	
Gross Profit	<u>1,594.0</u>	<u>24.8</u>	<u>1,618.8</u>	<u>1,609.2</u>	<u>21.5</u>	<u>1,630.7</u>
Operating expenses:						
Sales and marketing	491.4	(28.3) (a)	463.1	483.6	(26.3) (a)	457.3
Product development	205.2	(22.8) (a)	182.4	226.8	(24.4) (a)	202.4
General and administrative	272.2	(30.3) (a)	241.0	261.7	(31.2) (a)	228.0
		(0.9) (b)			(2.5) (b)	
Provision for transaction and loan losses	96.7	-	96.7	98.0	-	98.0
Amortization of acquired intangible assets	72.8	(72.8) (c)	-	45.9	(45.9) (c)	-
Restructuring	12.7	(12.7) (f)	-	3.0	(3.0) (f)	-
Total operating expense	<u>1,151.0</u>	<u>(167.8)</u>	<u>983.2</u>	<u>1,119.0</u>	<u>(133.3)</u>	<u>985.7</u>
Income from operations	443.0	192.6	635.6	490.2	154.8	645.0
Interest and other income, net	(4.6)	-	(4.6)	26.8	9.5 (i)	26.3
					(10.0) (j)	
Income before income taxes	438.4	192.6	631.0	517.0	154.3	671.3
Provision for income taxes	(88.8)	(40.7) (d)	(129.5)	(85.1)	(55.6) (d)	(140.7)
Net income	<u>\$ 349.6</u>	<u>\$ 151.9</u>	<u>\$ 501.5</u>	<u>\$ 431.9</u>	<u>\$ 98.7</u>	<u>\$ 530.6</u>
Net income per share:						
Basic	<u>\$ 0.27</u>		<u>\$ 0.39</u>	<u>\$ 0.33</u>		<u>\$ 0.41</u>
Diluted	<u>\$ 0.27</u>		<u>\$ 0.38</u>	<u>\$ 0.33</u>		<u>\$ 0.40</u>
Weighted average shares:						
Basic	<u>1,294</u>		<u>1,294</u>	<u>1,309</u>		<u>1,309</u>
Diluted	<u>1,311</u>		<u>1,311</u>	<u>1,328</u>		<u>1,328</u>
Operating margin	<u>20%</u>	<u>8%</u>	<u>28%</u>	<u>22%</u>	<u>7%</u>	<u>29%</u>
Effective tax rate	<u>20%</u>	<u>1%</u>	<u>21%</u>	<u>16%</u>	<u>5%</u>	<u>21%</u>

## Notes:

- (a) Stock-based compensation expense
- (b) Employer payroll taxes on stock-based compensation
- (c) Amortization of acquired intangible assets and developed technology
- (d) Income taxes associated with certain non-GAAP entries
- (e) Impairment of goodwill
- (f) Restructuring
- (g) Joltid settlement
- (h) Charges associated with the sale of Skype that were finalized during the quarter
- (i) Amortization of intangibles and stock-based compensation for Skype
- (j) Contingencies associated with the sale of Skype that were settled during the quarter

# Reconciliation and Calculation of Return on Invested Capital

(in thousands, except percentages)

<b>Numerator components:</b>	<b>Q3'08</b>	<b>Q4'08</b>	<b>Q1'09</b>	<b>Q2'09</b>	<b>Q3'09</b>	<b>Q4'09</b>	<b>Q1'10</b>	<b>Q2'10</b>	<b>Q3'10</b>
Non-GAAP operating income	\$ 674,318	\$ 667,958	\$ 620,347	\$ 602,252	\$ 635,468	\$ 694,976	\$ 672,853	\$ 645,650	\$ 644,997
Tax rate	17%	24%	22%	20%	21%	16%	22%	21%	21%
Non-GAAP operating income after tax	\$ 559,684	\$ 508,685	\$ 485,732	\$ 482,223	\$ 505,197	\$ 580,791	\$ 524,287	\$ 510,967	\$ 509,806
<b>Denominator components:</b>	<b>Q3'08</b>	<b>Q4'08</b>	<b>Q1'09</b>	<b>Q2'09</b>	<b>Q3'09</b>	<b>Q4'09</b>	<b>Q1'10</b>	<b>Q2'10</b>	<b>Q3'10</b>
Total assets	\$ 14,240,157	\$ 15,592,439	\$ 15,127,787	\$ 16,566,289	\$ 17,356,732	\$ 18,408,320	\$ 18,690,178	\$ 18,747,584	\$ 19,948,062
Total cash, cash equivalents and investments	3,777,482	3,458,840	3,326,805	3,134,478	3,638,587	6,325,569	6,505,468	6,725,768	7,463,927
Current liabilities	2,854,733	3,705,087	3,159,924	3,730,364	3,646,678	3,641,968	3,587,011	3,564,261	3,808,909
TTM Non-GAAP operating income after tax	\$ 2,226,524	\$ 2,158,933	\$ 2,103,774	\$ 2,036,324	\$ 1,981,837	\$ 2,053,943	\$ 2,092,499	\$ 2,121,243	\$ 2,125,852
TTM average total assets	14,892,187	15,053,313	15,005,663	15,309,659	15,776,681	16,610,313	17,229,861	17,953,821	18,630,175
TTM 95% of average cash, cash equivalents and investments	4,097,313	3,906,756	3,582,067	3,397,071	3,293,876	3,778,013	4,356,872	5,002,675	5,825,271
TTM average current liabilities	3,062,769	3,149,213	3,161,282	3,291,268	3,419,357	3,576,804	3,553,189	3,634,056	3,649,765
<b>ROIC</b>	<b>28.8%</b>	<b>27.0%</b>	<b>25.5%</b>	<b>23.6%</b>	<b>21.9%</b>	<b>22.2%</b>	<b>22.5%</b>	<b>22.8%</b>	<b>23.2%</b>

# Reconciliation of GAAP Net Revenue to Non-GAAP Net Revenue Excluding Skype

	<b>Three Months Ended</b>	
	<b>September 30, 2009</b>	<b>September 30, 2010</b>
	(In millions)	
GAAP Net Revenue	\$ 2,238	\$ 2,249
Less: Net Revenue attributable to Skype	185	-
Non-GAAP Net Revenue excluding Skype	<u>\$ 2,053</u>	<u>\$ 2,249</u>

# Reconciliation of GAAP to Non-GAAP Guidance

	<b>Three Months Ending December 31, 2010</b>	
	<b>GAAP</b>	<b>Non-GAAP (a)</b>
(in millions, except per share amounts)		
Revenues	\$2,389 - \$2,489	\$2,389 - \$2,489
Diluted EPS	\$0.37 - \$0.40	\$0.45 - \$0.48

(a) Estimated non-GAAP amounts above for the three months ending September 30, 2010, reflect the quarterly adjustments that exclude the estimated amortization of acquired intangible assets of approximately \$55-\$65 million, estimated stock-based compensation expense and employer payroll taxes on stock-based compensation expense of approximately \$90-\$110 million and restructuring charges of approximately \$2 million.

	<b>Full Year Ending December 31, 2010</b>	
	<b>GAAP</b>	<b>Non-GAAP (b)</b>
(in millions, except per share amounts)		
Revenues	\$9,050 - \$9,150	\$9,050 - \$9,150
Diluted EPS	\$1.30 - \$1.33	\$1.67 - \$1.70

(b) Estimated non-GAAP amounts above for the twelve months ending December 31, 2010, reflect the annual adjustments that exclude the estimated amortization of acquired intangible assets of approximately \$230-\$245 million, estimated stock-based compensation expense and employer payroll taxes on stock-based compensation expense of approximately \$410-\$440 million and restructuring charges of approximately \$20-\$25 million.