



October 21, 2015

eBay Inc. Reports Third Quarter 2015 Results

- **Gross Merchandise Volume grew 6% on an FX-Neutral basis**
- **Revenue of \$2.1 billion**
- **Non-GAAP EPS of \$0.43 per share and GAAP EPS of \$0.45 per share on a Continuing Operations Basis**
- **Repurchased \$599 million of Common Stock; \$2.4 billion Repurchase Authorization Remaining**
- **eBay and PayPal Separated on July 17, 2015**

SAN JOSE, Calif.--(BUSINESS WIRE)-- eBay Inc. (Nasdaq: EBAY), a global commerce leader, today reported that gross merchandise volume (GMV) for the quarter ended September 30, 2015, increased 6% on a foreign exchange (FX) neutral basis, in-line with the prior quarter. Revenue for the quarter was \$2.1 billion, driving non-GAAP net income from continuing operations of \$529 million or \$0.43 per diluted share, and GAAP net income from continuing operations of \$545 million, or \$0.45 per diluted share. The company repurchased \$599 million of its common stock in the quarter, underscoring management's confidence in the long-term value of the business.

"We drove solid results in the quarter in which we completed a complex separation," said eBay Inc. President and CEO Devin Wenig. "We also marked eBay's 20th anniversary and made progress on executing our strategy to reposition the company to deliver stable and profitable long-term growth."

eBay Inc.'s commerce platforms continued to increase the role they play in global commerce, with an Active Buyer base that grew 5% year over year, to 159 million. GMV in the quarter was \$19.6 billion, a 6% increase on an FX-Neutral basis and a 2% decline on an as-reported basis, reflecting the continued impact of a strong U.S. dollar. In the U.S., GMV grew 3%, a one point acceleration versus the prior quarter, and International GMV increased 7% on an FX-Neutral basis, while it was down 5% on an as-reported basis. Total revenue in the quarter of \$2.1 billion was up 5% on an FX-Neutral basis and down 2% on an as-reported basis.

The eBay Classifieds and StubHub platforms both had strong quarters and continue to be key assets aligned with eBay's overall business strategy.

The quarter marked an important milestone for eBay as it celebrated its 20th anniversary with a number of activities, including a seller conference where significant upcoming changes to its seller policies and products were unveiled. These changes, which include more objective standards and a new Seller Hub, are intended to help small and medium sized sellers be even more successful on the eBay platform and better reward sellers who provide great service to eBay buyers.

During the quarter, eBay completed the distribution of PayPal and made progress against the completion of the sale of eBay Enterprise. Accordingly, the results of both PayPal and eBay Enterprise are presented as discontinued operations, appearing net of tax in a single line in the company's statement of income.

Third Quarter 2015 Financial Highlights (presented in millions, except per share data and percentages)

	Third Quarter			
	2015	2014	Change	
eBay Inc.				
Gross merchandise volume (GMV)	\$19,601	\$20,034	\$(433)	(2%)
Net revenue	\$2,099	\$2,150	\$(51)	(2%)
GAAP - Continuing Operations				
Income from continuing operations	\$545	\$509	\$36	7%
Earnings per diluted share from continuing operations	\$0.45	\$0.41	\$0.04	10%
GAAP - Discontinued Operations ⁽¹⁾				
Income (loss) from discontinued operations, net of income taxes	\$(6)	\$164	\$(170)	**
Earnings per diluted share from discontinued operations	\$—	\$0.13	\$(0.13)	**
Non-GAAP Continuing Operations				

Net income	\$529	\$579	\$(50)	(9%)
Earnings per diluted share	\$0.43	\$0.46	\$(0.03)	(6%)

**Not meaningful

(1) Includes PayPal financial results from July 1, 2015 to July 17, 2015; July 1, 2014 to September 30, 2014; respectively; also includes the financial results for the full periods, respectively, for eBay Enterprise.

Other Selected Financial and Operational Results

- Operating margin — GAAP operating margin decreased to 27.6% for the third quarter of 2015, compared to 27.7% for the same period last year. Non-GAAP operating margin decreased to 31.9% in the third quarter, compared to 32.8% for the same period last year.
- Taxes — The GAAP effective tax rate for continuing operations for the third quarter of 2015 was 18.0%, compared to 17.0% for the third quarter of 2014. The non-GAAP effective tax rate for continuing operations for the third quarter of 2015 was 20.1%, compared to 19.8% for the third quarter of 2014.
- Cash flow — The company generated \$704 million of operating cash flow from continuing operations and \$462 million of free cash flow from continuing operations during the third quarter of 2015.
- Stock repurchase program — The company repurchased approximately \$599 million of its common stock, or 21.9 million shares, in the third quarter. The company's total repurchase authorization remaining as of September 30, 2015 was \$2.4 billion.
- Cash and cash equivalents and non-equity investments — The company's cash and cash equivalents and non-equity investments portfolio totaled \$8.0 billion as of September 30, 2015.

Business Outlook

- Fourth quarter year 2015 — The company expects net revenues between \$2,275 million to \$2,325 million, representing FX-Neutral growth of 3% - 5%, with Non-GAAP earnings per diluted share from continuing operations in the range of \$0.47 - \$0.49 and GAAP earnings per diluted share from continuing operations in the range of \$0.42 - \$0.44.
- Full year 2015 — The company is maintaining net revenue guidance of 3% - 5% growth on an FX-Neutral basis and increasing Non-GAAP earnings per diluted share from continuing operations to the range of \$1.80 - \$1.82 and GAAP earnings per diluted share from continuing operations to the range of \$1.58 - \$1.60.

Quarterly Conference Call and Webcast

eBay Inc. will host a conference call to discuss third quarter 2015 results at 2:00 p.m. Pacific Time today. A live webcast of the conference call, together with a slide presentation that includes supplemental financial information and reconciliations of certain non-GAAP measures to their nearest comparable GAAP measures, can be accessed through the company's Investor Relations website at <https://investors.ebayinc.com>. In addition, an archive of the webcast will be accessible for 90 days through the same link.

eBay Inc. uses its Investor Relations website at <https://investors.ebayinc.com> as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Accordingly, investors should monitor, in addition to following press releases, SEC filings, public conference calls and webcasts.

About eBay

eBay Inc. (NASDAQ: EBAY) is a global commerce leader including the eBay, StubHub and eBay Classifieds platforms. Collectively, we connect millions of buyers and sellers around the world, empowering people and creating opportunity through Connected Commerce. Founded in 1995 in San Jose, Calif., eBay is one of the world's largest and most vibrant marketplaces for discovering great value and unique selection. In 2014, eBay enabled \$83 billion of gross merchandise volume. For more information about the company and its global portfolio of online brands, visit www.ebayinc.com.

Presentation

All growth rates represent year over year comparisons, except as otherwise noted. All amounts in tables are presented in U.S. dollars, rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not sum or recalculate using the rounded dollar amounts provided.

Non-GAAP Financial Measures

This press release includes the following financial measures defined as "non-GAAP financial measures" by the Securities and Exchange Commission (SEC): non-GAAP net income, non-GAAP earnings per diluted share, non-GAAP operating margin, non-GAAP effective tax rate and free cash flow. These non-GAAP financial measures are presented on a continuing operations basis. These measures may be different from non-GAAP financial measures used by other companies. The presentation of this financial information, which is not prepared under any comprehensive set of accounting rules or principles, is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with generally accepted accounting principles (GAAP). For a reconciliation of these non-GAAP financial measures to the nearest comparable GAAP measures, see "Business Outlook," "Non-GAAP Measures of Financial Performance," "Reconciliation of GAAP Operating Margin to Non-GAAP Operating Margin," "Reconciliation of GAAP Net Income to Non-GAAP Net Income and Reconciliation of GAAP Effective Tax Rate to Non-GAAP Effective Tax Rate" and "Reconciliation of Operating Cash Flow to Free Cash Flow" included in this press release.

Forward-Looking Statements

This press release contains forward-looking statements relating to, among other things, the company's planned sale of the Enterprise business, and the future performance of eBay Inc. and its consolidated subsidiaries that are based on the company's current expectations, forecasts and assumptions and involve risks and uncertainties. These statements include, but are not limited to, statements regarding the future performance of the eBay business on a standalone basis, including expected financial results for the fourth quarter and full year 2015, the future growth in our business and mobile commerce. Actual results could differ materially from those predicted or implied and reported results should not be considered as an indication of future performance. Other factors that could cause or contribute to such differences include, but are not limited to: whether the operational, marketing and strategic benefits of the recently completed separation of the eBay and PayPal businesses can be achieved; whether the costs and expenses of the separation can be controlled within expectations; changes in political, business and economic conditions, any regional or general economic downturn or crisis and any conditions that affect ecommerce growth or cross-border trade; fluctuations in foreign currency exchange rates; the company's need to successfully react to the increasing importance of mobile commerce and the increasing social aspect of commerce; an increasingly competitive environment for our business; changes to the company's capital allocation or management of operating cash the company's ability to manage its indebtedness, including managing exposure to interest rates and maintaining its credit ratings; the company's need to manage an increasingly large enterprise with a broad range of businesses of varying degrees of maturity and in many different geographies; the company's need and ability to manage regulatory, tax, data security and litigation risks; the company's ability to timely upgrade and develop its technology systems, infrastructure and customer service capabilities at reasonable cost while maintaining site stability and performance and adding new products and features; and the company's ability to integrate, manage and grow businesses that have been acquired or may be acquired in the future.

The forward-looking statements in this release do not include the potential impact of any acquisitions or divestitures that may be announced and/or completed after the date hereof.

More information about factors that could affect the company's operating results is included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q, copies of which may be obtained by visiting the company's Investor Relations website at <https://investors.ebayinc.com> or the SEC's website at www.sec.gov. All information in this release is as of October 21, 2015. Undue reliance should not be placed on the forward-looking statements in this press release, which are based on information available to the company on the date hereof. The company assumes no obligation to update such statements.

eBay Inc. Unaudited Condensed Consolidated Balance Sheet

	September 30, 2015	December 31, 2014
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,387	\$ 4,105
Short-term investments	2,914	3,730
Accounts receivable, net	595	600
Other current assets	1,149	1,048
Current assets of discontinued operations	—	16,795
Current assets held for sale	1,232	253
Total current assets	8,277	26,531
Long-term investments	3,572	5,736

Property and equipment, net	1,535	1,486
Goodwill	4,442	4,671
Intangible assets, net	90	133
Other assets	269	207
Long-term assets of discontinued operations	—	4,506
Long-term assets held for sale	—	1,862
Total assets	<u>\$ 18,185</u>	<u>\$ 45,132</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Short-term debt	\$ 625	\$ 850
Accounts payable	175	107
Accrued expenses and other current liabilities	3,107	3,830
Deferred revenue	137	108
Income taxes payable	57	125
Current liabilities of discontinued operations	—	12,137
Current liabilities held for sale	336	374
Total current liabilities	<u>4,437</u>	<u>17,531</u>
Deferred and other tax liabilities, net	511	522
Long-term debt	6,814	6,777
Other liabilities	85	79
Long-term liabilities of discontinued operations	—	243
Long-term liabilities held for sale	—	74
Total liabilities	<u>11,847</u>	<u>25,226</u>

Total stockholders' equity	<u>6,338</u>	<u>19,906</u>
Total liabilities and stockholders' equity	<u>\$ 18,185</u>	<u>\$ 45,132</u>

eBay Inc.

Unaudited Condensed Consolidated Statement of Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In millions, except per share amounts)			
Net revenues	\$ 2,099	\$ 2,150	\$ 6,270	\$ 6,467
Cost of net revenues ⁽¹⁾	<u>433</u>	<u>413</u>	<u>1,278</u>	<u>1,221</u>
Gross profit	<u>1,666</u>	<u>1,737</u>	<u>4,992</u>	<u>5,246</u>
Operating expenses:				
Sales and marketing ⁽¹⁾	565	624	1,672	1,815
Product development ⁽¹⁾	241	246	694	747
General and administrative ⁽¹⁾	207	203	862	678
Provision for transaction losses	65	58	199	196
Amortization of acquired intangible assets	<u>10</u>	<u>10</u>	<u>30</u>	<u>65</u>
Total operating expenses	<u>1,088</u>	<u>1,141</u>	<u>3,457</u>	<u>3,501</u>
Income from operations	<u>578</u>	<u>596</u>	<u>1,535</u>	<u>1,745</u>
Interest and other, net	<u>87</u>	<u>17</u>	<u>221</u>	<u>32</u>
Income from continuing operations before income taxes	<u>665</u>	<u>613</u>	<u>1,756</u>	<u>1,777</u>
Provision for income taxes	<u>(120)</u>	<u>(104)</u>	<u>(332)</u>	<u>(3,371)</u>
Income (loss) from continuing operations	<u>\$ 545</u>	<u>\$ 509</u>	<u>\$ 1,424</u>	<u>\$ (1,594)</u>
Income (loss) from discontinued operations, net of income taxes ⁽²⁾	<u>(6)</u>	<u>164</u>	<u>(176)</u>	<u>617</u>
Net income (loss)	<u>\$ 539</u>	<u>\$ 673</u>	<u>\$ 1,248</u>	<u>\$ (977)</u>
Income (loss) per share - basic:				
Continuing operations	\$ 0.45	\$ 0.41	\$ 1.17	\$ (1.27)

Discontinued operations	\$ —	\$ 0.13	\$ (0.14)	\$ 0.49
Net income (loss) per share - basic	<u>\$ 0.45</u>	<u>\$ 0.54</u>	<u>\$ 1.03</u>	<u>\$ (0.78)</u>
Income (loss) per share - diluted:				
Continuing operations	\$ 0.45	\$ 0.41	\$ 1.16	\$ (1.27)
Discontinued operations	\$ —	\$ 0.13	\$ (0.14)	\$ 0.49
Net income (loss) per share - diluted	<u>\$ 0.45</u>	<u>\$ 0.54</u>	<u>\$ 1.02</u>	<u>\$ (0.78)</u>
Weighted average shares:				
Basic	<u>1,210</u>	<u>1,242</u>	<u>1,214</u>	<u>1,258</u>
Diluted	<u>1,223</u>	<u>1,251</u>	<u>1,226</u>	<u>1,258</u>
(1) Includes stock-based compensation as follows:				
Cost of net revenues	\$ 10	\$ 8	\$ 28	\$ 23
Sales and marketing	28	24	75	71
Product development	29	30	83	90
General and administrative	26	24	115	67
	<u>\$ 93</u>	<u>\$ 86</u>	<u>\$ 301</u>	<u>\$ 251</u>

(2) Includes PayPal financial results from July 1, 2015 to July 17, 2015; July 1, 2014 to September 30, 2014; January 1, 2015 to July 17, 2015; and January 1, 2014 to September 30, 2014; respectively; also includes the financial results for the full periods, respectively, for eBay Enterprise.

eBay Inc.
Unaudited Condensed Consolidated Statement of Cash Flows

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In millions)			
Cash flows from operating activities:				
Net income (loss)	\$ 539	\$ 673	\$ 1,248	\$ (977)
(Income) loss from discontinued operations	6	(164)	176	(617)
Adjustments:				
Provision for transaction losses	65	58	199	196
Depreciation and amortization	182	164	516	518
Stock-based compensation	93	86	301	251
Gain on sale of investments	(110)	—	(212)	—
Deferred income taxes	14	(9)	(115)	2,979
Changes in assets and liabilities, net of acquisition effects	(85)	(13)	(362)	40
Net cash provided by continuing operating activities	<u>704</u>	<u>795</u>	<u>1,751</u>	<u>2,390</u>
Net cash provided by (used in) discontinued operating activities ⁽¹⁾	<u>(18)</u>	<u>573</u>	<u>1,242</u>	<u>1,646</u>
Net cash provided by operating activities	<u>686</u>	<u>1,368</u>	<u>2,993</u>	<u>4,036</u>
Cash flows from investing activities:				
Purchases of property and equipment	(242)	(196)	(539)	(422)
Purchases of investments	(1,102)	(3,194)	(4,452)	(6,808)
Maturities and sales of investments	1,627	1,322	5,579	4,205
Acquisitions, net of cash acquired	(24)	(20)	(24)	(55)
Other	(12)	—	(15)	(5)
Net cash provided by (used in) continuing investing activities	<u>247</u>	<u>(2,088)</u>	<u>549</u>	<u>(3,085)</u>
Net cash provided by (used in) discontinued investing activities ⁽¹⁾	<u>(1,114)</u>	<u>(528)</u>	<u>(3,837)</u>	<u>(660)</u>
Net cash provided by (used in) investing activities	<u>(867)</u>	<u>(2,616)</u>	<u>(3,288)</u>	<u>(3,745)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock	27	24	173	178
Repurchases of common stock	(512)	(8)	(1,512)	(3,476)
Excess tax benefits from stock-based compensation	32	2	72	56

Tax withholdings related to net share settlements of restricted stock units and awards	(46)	(14)	(226)	(224)
Proceeds from issuance of debt	—	3,482	—	3,482
Repayment of debt	(250)	—	(250)	—
Net borrowings under commercial paper program	—	(1,200)	—	—
Other	10	5	10	8
Net cash provided by (used in) continuing financing activities	(739)	2,291	(1,733)	24
Net cash provided by (used in) discontinued financing activities ⁽¹⁾	(1,615)	(10)	(1,599)	19
Net cash provided by (used in) financing activities	(2,354)	2,281	(3,332)	43
Effect of exchange rate changes on cash and cash equivalents	(37)	(77)	(286)	(38)
Net (decrease) increase in cash and cash equivalents	(2,572)	956	(3,913)	296
Cash and cash equivalents at beginning of period	4,987	3,834	6,328	4,494
Cash and cash equivalents at end of period	2,415	4,790	2,415	4,790
Less: Cash and cash equivalents of held for sale	28	29	28	29
Less: Cash and cash equivalents of discontinued operations	—	2,254	—	2,254
Cash and cash equivalents of continuing operations at end of period	<u>\$ 2,387</u>	<u>\$ 2,507</u>	<u>\$ 2,387</u>	<u>\$ 2,507</u>

(1) Includes PayPal financial results from July 1, 2015 to July 17, 2015; July 1, 2014 to September 30, 2014; January 1, 2015 to July 17, 2015; and January 1, 2014 to September 30, 2014; respectively; also includes the financial results for the full periods, respectively, for eBay Enterprise.

eBay Inc.
Unaudited Summary of Consolidated Net Revenues

Net Revenues by Type

	Three Months Ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
	(In millions, except percentages)				
Net transaction revenues	\$ 1,659	\$1,685	\$ 1,668	\$ 1,836	\$ 1,703
Current quarter vs prior quarter	(2)%	1%	(9)%	8%	(1)%
Current quarter vs prior year quarter	(3)%	(2)%	(3)%	N/A	N/A
Percent from international	54%	56%	55%	57%	57%
Marketing services and other revenues	440	425	393	487	447
Current quarter vs prior quarter	3%	8%	(19)%	9%	(1)%
Current quarter vs prior year quarter	(2)%	(5)%	(8)%	N/A	N/A
Percent from international	67%	70%	70%	67%	71%
Total net revenues	\$ 2,099	\$2,110	\$ 2,061	\$ 2,323	\$ 2,150
Current quarter vs prior quarter	(1)%	2%	(11)%	8%	(1)%
Current quarter vs prior year quarter	(2)%	(3)%	(4)%	N/A	N/A

eBay Inc.
Unaudited Supplemental Operating Data

	Three Months Ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
	(In millions, except percentages)				
Active Buyers ⁽¹⁾	159	157	156	154	151
Current quarter vs prior quarter	2%	1%	1%	2%	2%
Current quarter vs prior year quarter	5%	6%	8%	10%	13%
Gross Merchandise Volume ⁽²⁾	\$ 19,601	\$20,061	\$20,151	\$ 21,794	\$ 20,034
Current quarter vs prior quarter	(2)%	—%	(8)%	9%	(2)%
Current quarter vs prior year quarter	(2)%	(2)%	(2)%	2%	9%

eBay's classifieds web sites, brands4friends and Shopping.com are not included in these metrics.

- (1) All buyers (including buyers of Half.com, StubHub, GittiGidiyor, and our Korean subsidiary) who successfully closed a transaction within the previous 12-month period. Buyers may register more than once, and as a result, may have more than one account.
- (2) Total value of all successfully closed transactions between users on our platforms during the period regardless of whether the buyer and seller actually consummated the transaction; excludes vehicles and real estate gross merchandise volume. We believe that GMV provides a useful measure of the overall volume of closed transactions that flow through our platforms in a given period, notwithstanding the inclusion in GMV of closed transactions that are not ultimately consummated.

eBay Inc.
Business Outlook
(In Millions, Except Per Share Amounts)

The guidance figures provided below and elsewhere in this press release are forward-looking statements, reflect a number of estimates, assumptions and other uncertainties, and are approximate in nature because the company's future performance is difficult to predict. Such guidance is based on information available on the date of this press release, and the company assumes no obligation to update it.

The company's future performance involves risks and uncertainties, and the company's actual results could differ materially from the information below and elsewhere in this press release. Some of the factors that could affect the company's operating results are set forth under the caption "Forward-Looking Statements" above in this press release. More information about factors that could affect the company's operating results is included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q, copies of which may be obtained by visiting eBay's investor relations website at <https://investors.ebayinc.com> or the SEC's website at www.sec.gov.

eBay Inc.

	Three Months Ending December 31, 2015	
	GAAP	Non-GAAP (a)
(In millions, except per share amounts) Diluted EPS from continuing operations	\$0.42 - \$0.44	\$0.47 - \$0.49
	Twelve Months Ending December 31, 2015	
	GAAP	Non-GAAP (b)
(In millions, except per share amounts) Diluted EPS from continuing operations	\$1.58 - \$1.60	\$1.80 - \$1.82

(a) Estimated non-GAAP amounts above for the three months ending December 31, 2015, reflect adjustments that exclude the estimated amortization of acquired intangible assets of approximately \$10 - \$20 million and estimated stock-based compensation expense and employer payroll taxes on stock-based compensation expense of approximately \$75 - \$85 million as well as the related tax impact.

(b) Estimated non-GAAP amounts above for the twelve months ending December 31, 2015, reflect adjustments that exclude the estimated amortization of acquired intangible assets of approximately \$60 - \$70 million, estimated separation and restructuring expense of approximately \$185 - \$190 million and estimated stock-based compensation expense and employer payroll taxes on stock-based compensation expense of approximately \$390 - \$400 million.

eBay Inc.
Non-GAAP Measures of Financial Performance

To supplement the company's condensed consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, the company uses non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP net income, non-GAAP earnings per diluted share, non-GAAP operating margin, non-GAAP effective tax rate, and free cash flow. These non-GAAP financial measures are presented on a continuing operations basis.

These non-GAAP measures are not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the company's results of operations as determined in accordance with GAAP. These measures should only be used to evaluate the company's results of operations in conjunction with the corresponding GAAP measures.

Reconciliation to the nearest GAAP measure of all non-GAAP measures included in this press release can be found in the tables included in this press release.

These non-GAAP measures are provided to enhance investors' overall understanding of the company's current financial performance and its prospects for the future. Specifically, the company believes the non-GAAP measures provide useful information to both management and investors by excluding certain expenses, gains and losses, or net purchases of property and equipment, as the case may be, that may not be indicative of its core operating results and business outlook. In addition, because the company has historically reported certain non-GAAP results to investors, the company believes that the inclusion of non-GAAP measures provides consistency in the company's financial reporting.

For its internal budgeting process, and as discussed further below, the company's management uses financial measures that do not include stock-based compensation expense, employer payroll taxes on stock-based compensation, amortization or impairment of acquired intangible assets, impairment of goodwill, significant gains or losses from the disposal/acquisition of a business, certain effects of the planned separation of our eBay and PayPal business, certain gains and losses on investments, restructuring-related charges and the income taxes associated with the foregoing. In addition to the corresponding GAAP measures, the company's management also uses the foregoing non-GAAP measures in reviewing the financial results of the company.

The company excludes the following items from non-GAAP net income, non-GAAP earnings per diluted share, non-GAAP operating margin and non-GAAP effective tax rate:

Stock-based compensation expense and related employer payroll taxes. This expense consists of expenses for stock options, restricted stock and employee stock purchases. The company excludes stock-based compensation expense from its non-GAAP measures primarily because they are non-cash expenses that management does not believe are reflective of ongoing operating results. The related employer payroll taxes is dependent on the company's stock price and the timing and size of exercises by employees of their stock options and the vesting of their restricted stock, over which management has limited to no control, and as such management does not believe it correlates to the company's operation of the business.

Amortization or impairment of acquired intangible assets, impairment of goodwill, significant gains or losses and transaction expenses from the acquisition or disposal of a business and certain gains or losses on investments. The company incurs amortization or impairment of acquired intangible assets and goodwill in connection with acquisitions and may incur significant gains or losses from the acquisition or disposal of a business and therefore excludes these amounts from its non-GAAP measures. The company also excludes certain gains and losses on investments. The company excludes the impact of the accretion of a note receivable associated with the disposal of certain businesses. The company excludes these items because management does not believe they correlate to the ongoing operating results of the company's business.

Restructuring. These charges consist of expenses for employee severance and other exit and disposal costs. The company excludes significant restructuring charges primarily because management does not believe they are reflective of ongoing operating results.

Other certain significant gains, losses, or charges that are not indicative of the Company's core operating results. These are significant gains, losses, or charges during a period that are the result of isolated events or transactions which have not occurred frequently in the past and are not expected to occur regularly or be repeated in the future. The company excludes these amounts from its results primarily because management does not believe they are indicative of its current or ongoing operating results.

Separation. These are significant expenses that are related to the planned separation of our eBay and PayPal businesses into separate publicly traded companies. These consist primarily of third-party consulting fees, legal fees, employee retention payments and other expenses incurred to complete the separation.

Tax effect of non-GAAP adjustments. This amount is used to present stock-based compensation and the other amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income.

In addition to the non-GAAP measures discussed above, the company also uses free cash flow. Free cash flow represents operating cash flows less purchases of property and equipment. The company considers free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business.

after the purchases of property, buildings, and equipment, which can then be used to, among other things, invest in the company's business, make strategic acquisitions, and repurchase stock. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in the company's cash balance for the period.

eBay Inc.

Reconciliation of GAAP Operating Margin to Non-GAAP Operating Margin

	Three Months Ended	
	September 30, 2015	September 30, 2014
	(In millions, except percentages)	
GAAP operating income	\$ 578	\$ 596
Stock-based compensation expense and related employer payroll taxes	94	90
Amortization of acquired intangible assets within cost of net revenues	4	9
Amortization of acquired intangible assets within operating expenses	10	10
Other significant gains, losses or charges	(16)	—
Total non-GAAP operating income adjustments	92	109
Non-GAAP operating income	\$ 670	\$ 705
Non-GAAP operating margin	31.9%	32.8%

**Reconciliation of GAAP Net Income to Non-GAAP Net Income and
GAAP Effective Tax Rate to Non-GAAP Effective Tax Rate***

	Three Months Ended	
	September 30, 2015	September 30, 2014
	(In millions, except percentages)	
GAAP income from continuing operations before income taxes	\$ 665	\$ 613
GAAP provision for income taxes	(120)	(104)
GAAP net income from continuing operations	\$ 545	\$ 509
Non-GAAP adjustments to net income from continuing operations:		
Non-GAAP operating income from continuing operations adjustments (see table above)	92	109
Gains or losses on investments	(94)	—
Tax effect of non-GAAP adjustments	(14)	(39)
Non-GAAP net income from continuing operations	\$ 529	\$ 579
Diluted net income from continuing operations per share:		
GAAP	\$ 0.45	\$ 0.41
Non-GAAP	\$ 0.43	\$ 0.46
Shares used in GAAP diluted net income (loss) per-share calculation	1,223	1,251
Shares used in non-GAAP diluted net income per-share calculation	1,223	1,251
GAAP effective tax rate - Continuing operations	18%	17%
Tax effect of non-GAAP adjustments to net income (loss) from continuing operations	2%	3%
Non-GAAP effective tax rate - Continuing Operations	20%	20%

*Presented on a continuing operations basis

Reconciliation of Operating Cash Flow to Free Cash Flow*

	Three Months Ended	
	September 30, 2015	September 30, 2014
	(In millions)	
Net cash provided by continuing operating activities	\$ 704	\$ 795

Less: Purchases of property and equipment	(242)	(196)
Free cash flow from continuing operations	<u>\$ 462</u>	<u>\$ 599</u>

*Presented on a continuing operations basis

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