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Piper Jaffray & Co.

Reason for Report:

Change in Price Target

Changes	Previous	Current
Rating	--	Market Perform
Price Tgt	\$39.00	\$34.00
FY07E Rev (mil)	--	\$7,485.0
FY08E Rev (mil)	--	\$8,946.0
FY07E EPS	--	\$1.10
FY08E EPS	--	\$1.34

Price:	\$31.48
52 Week High:	\$35.41
52 Week Low:	\$22.83
12-Month Price Target:	\$34.00
<i>(22x 2008 PF EPS)</i>	

Shares Out (mil):	1,384.0
Market Cap. (mil):	\$43,568.3
Avg Daily Vol (000):	14,667
Book Value/Share:	\$8.10
Cash Per Share:	\$2.14
Est LT EPS Growth:	16%
P/E to LT EPS Growth (FY07):	1.8x
Est Next Rep Date:	07/18/2007
Fiscal Year End:	Dec

Rev (mil)	2006A	2007E	2008E
Mar	\$1,390.4A	\$1,768.0A	\$2,121.0E
Jun	\$1,410.8A	\$1,796.0E	\$2,151.0E
Sep	\$1,448.6A	\$1,824.0E	\$2,190.0E
Dec	\$1,719.9A	\$2,097.0E	\$2,484.0E
FY	\$5,969.7A	\$7,485.0E	\$8,946.0E
CY	\$5,969.7A	\$7,485.0E	\$8,946.0E

FY RM	7.3x	5.8x	4.9x
CY RM	7.3x	5.8x	4.9x

EPS	2006A	2007E	2008E
Mar	\$0.17A	\$0.27A	\$0.32E
Jun	\$0.17A	\$0.26E	\$0.32E
Sep	\$0.20A	\$0.26E	\$0.32E
Dec	\$0.25A	\$0.31E	\$0.38E
FY	\$0.79A	\$1.10E	\$1.34E
CY	\$0.79A	\$1.10E	\$1.34E

FY P/E	39.8x	28.6x	23.5x
CY P/E	39.8x	28.6x	23.5x

EPS estimates are GAAP. PF EPS for 2007 and 2008 are \$1.36 and \$1.61.

eBay Inc. Market Perform

(EBAY - \$31.48)
Volatility: Medium

Incrementally Cautious Following Meeting With eBay Powersellers and Partners

KEY POINTS:

- On Wednesday, we hosted a dinner with eBay Powersellers and Partners ahead of the eBay Live User Conference which begins today in Boston
- Unrest in the marketplace due to: buyer demand and buyer experience, trust and safety, eBay's lack of responsiveness to sellers, and lack of investments that eBay is making to address seller concerns.
- Concerns manifested in slower listings growth, lower buyer activity, and sellers increasingly exploring other channels.
- Listings and revenues tracking below our Q2 estimates
- Maintain MP; Lower PT to \$34 (22x 2008E PF EPS)

Takeaways from Dinner with eBay Powersellers and Partners. On Wednesday, we hosted a dinner in Boston with the heads of PeSA (Professional eBay Powersellers Association), ChannelAdvisor, as well as eBay Powersellers. Based on our discussion, we believe there is a lot of unrest in the marketplace, with major concerns from eBay Powersellers on several fronts, including: buyer demand and buyer experience, trust and safety, eBay's lack of responsiveness to sellers, and lack of investments that eBay is making to address seller concerns. These concerns are being manifested in slower growth of seller listings, lower buyer activity, and sellers increasingly exploring other channels such as Amazon and their own branded sites. While eBay has acknowledged some of these issues, our discussions indicated eBay has been very slow to react, with little progress made year to date. (see page 2 for details).

Incrementally Cautious; Maintain MP but Lowering PT to \$34. Given our increased concerns, we are incrementally more cautious on eBay shares. We would also note that listings are tracking 3% below our estimate for the quarter with total listings through week 10 down 3% q/q vs. our -0.3% estimate - based on our listings count, we believe revenues are tracking towards the lower end of the company guidance of \$1.75-\$1.8B and below our \$1.8B estimate. Given our more cautious stance, we are lowering our price target from \$39 (24x '08 PF EPS) to \$34 (22x 2008 PF EPS). We believe a lower multiple is justified given our increased concerns over the health of the core eBay business. While the eCommerce group trades at 30x 2007 PF EPS, we believe a lower multiple is justified given the lower growth prospects for eBay (we estimate mid-teens long-term earnings growth for eBay vs. 20%-plus growth for the group). We would become more constructive as we see evidence that eBay is addressing some of these concerns.

INVESTMENT RECOMMENDATION:

We maintain our Market Perform rating and lower our PT from \$39 (24x 2008E PF EPS) to \$34 (22x 2008E PF EPS) based on our lower multiple.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks include multiple expansion, reacceleration in growth, and decreasing customer acquisition costs.

COMPANY DESCRIPTION:

eBay Inc. is the world's largest online trading community.

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Takeaways from Dinner with eBay Powersellers and Partners. On Wednesday, we hosted a dinner in Boston with the heads of PeSA (Professional eBay Powersellers Association), ChannelAdvisor, as well as eBay Powersellers. Based on our discussion, we believe there is a lot of unrest in the marketplace, with major concerns from eBay Powersellers on several fronts, including: buyer demand and buyer experience, trust and safety, eBay's lack of responsiveness to sellers, and lack of investments that eBay is making to address seller concerns. These concerns are being manifested in slower growth of seller listings, lower buyer activity, and sellers increasingly exploring other channels such as Amazon and their own branded sites. Below we highlight the key takeaways from our meeting:

Buyer Demand & Buyer Experience Are Key Concerns. Based on our conversations with eBay Powersellers and eBay Partners, it was clear that the key concerns are buyer demand and the buyer experience. The key issues centered around: 1) search and navigation 2) marketplace fraud 3) stale user interface. These issues are manifesting in low growth of active users (worldwide active users LTM on eBay increased just 10% y/y in Q1 and active users/registered users at 32% is down 4% over the last year). We believe active user growth in the U.S. was much lower than the overall 10% growth that was reported and sellers believe that active users in the quarter were down materially from Q4 levels. While eBay has acknowledged that buyer demand has become a major issue, the sellers indicated that eBay has done little to address this thus far. The Powersellers did indicate that eBay is increasingly addressing trust and safety issues such as second chance buyer fraud, although buyers/sellers constantly find new ways to deceive eBay users. Another example is that on eBay there is no way for buyers to sort for sellers that allow returns in contrast to Amazon that requires sellers to accept returns. Essentially, eBay has not focused on the buyer experience enough over the past few years, and this is being manifested now in waning buyer demand on eBay. On the positive side, there is a lot of room for eBay to make changes and the changes needed are not overly complex.

eBay Not Responsive Enough to Powersellers. The Powersellers indicated that eBay does not sufficiently listen to their concerns. While eBay has indicated that they are making changes (i.e improved search & navigation), eBay has been very slow in making changes and based on our discussions no significant changes have been made in Q2. Another complaint was that eBay is not nimble enough and is too bureaucratic to make changes in a timely manner – for a while eBay had approximately 20 people that had to approve changes and new ideas would often get voted down by some constituency. The Powersellers also felt that eBay has become distracted on other initiatives over the last couple of years that are not contributing to the health of the core marketplace business (i.e. Skype, eBay China, off-eBay PayPal). Further, the sellers indicated that the loss of Jeff Jordan was a big loss as he was one of the key management personnel at eBay looking to address seller concerns.

Sellers Increasingly Exploring Alternate Channels. While eBay remains the primary channel for most sellers, given the slowdown in listings over the last year sellers are increasingly exploring alternate channels, including Amazon as well as their own branded sites. Specifically, in the media segment, Amazon is absorbing the sellers on eBay that effectively got priced out of the market. Additionally, over the last year, there has been a significant increase in the number of branded eCommerce sites among Powersellers (PeSA indicated that over 75% of members now run their own sites today). ChannelAdvisor also is increasingly focused on the non-eBay channel with roughly half of its business today coming off eBay vs. almost all eBay a couple of years ago. We also note that other Internet companies including Yahoo, Google, and Amazon, are increasingly recruiting eBay Powersellers. To this point, Powersellers are increasingly utilizing Amazon for listings but are also looking at Amazon's third party services, including its fulfillment services.

eBay Needs Segmented Pricing and Policies. One of the key concerns with the eBay marketplace is that they apply changes evenly across all sellers, irrespective of the categories they are in. Hence, a hike in store listings fees for low priced low velocity items such as books and movies impacts these sellers much more than sellers of higher priced and higher velocity items. The sellers also believe that the increase in store listings fees last year (from \$0.02 to at \$0.05 minimum) is eroding the long-tail value proposition of eBay with many sellers in the long-tail migrating to other channels with no listings fees (e.g. Amazon).

Conversions Up Due to Mix Shift, Not Due to Improvement in Buyer Activity. The recent increases in conversion rates (which has translated into higher revenue per listing) is mainly being driven by a mix shift in listings (shift away from lower velocity listings such as media segment). The fact that buyer activity has slowed as evidenced by lower active user growth further supports the notion that revenue per listing is being driven by a mix shift. We believe that once eBay anniversaries the higher prices (in 3Q07), it will become increasingly challenging to increase revenue per listing.

Perception of eBay as Discount Channel Could Make It Difficult to Penetrate In Season Retail. The Powersellers indicated that eBay has a hard time selling products today at full retail pricing given the perception that eBay is a discount channel as well as buyer concern over fraud in the marketplace, especially on higher priced goods. Hence, sellers are able to sell goods at a significant premium off-eBay vs. what they could get on eBay (typically 30-50% higher). Additionally, the sellers indicated that eBay express is not the right platform for new goods and should be branded separately from eBay if eBay truly wants to operate a new goods site. The sellers also believed there has been little synergies between eBay and Shopping.com.

eBay Needs to Increase Investments in the Marketplace. The general view from our meeting is that eBay has underinvested in its core marketplace over the past few years and has been slow to innovate while competitors are investing heavily in new products and initiatives (especially Google and Amazon). Sellers do not believe that eBay is a technology company and hence much slower to innovate than its competitors - an example was the speed at which Google developed its Checkout product and continuously addressed merchants input while PayPal has been very slow to make changes. The sellers believe that eBay needs to increase investments in the business, including user interface, trust and safety, customer service, user interface, and search. While this would likely lower eBay's profits near-term, they believe it would ultimately lead to an improved marketplace experience and increased demand.

eBay Heavily Reliant on Google AdWords. While eBay removed its ads from Google on Wednesday (we believe in reaction to Google's Checkout Party which has subsequently been pulled), our discussions suggest that eBay's buyer traffic significantly decreased due to the stoppage of use for Google AdWords. Hence, we believe eBay remains heavily reliant on Google for traffic and it is not an option for eBay to remove listings from Google long term.

Are there any Positives? While Powersellers see several structural issues with eBay today, all of the Powersellers have a vested interest in the eBay marketplace doing well. eBay is still viewed as having a dominant eCommerce marketplace, a strong value proposition for buyers, and a low cost customer acquisition channel for sellers. Furthermore, the Powersellers see a lot of opportunity for eBay to improve the overall health of the marketplace assuming eBay addresses some of the key issues mentioned above, especially the demand side of the marketplace. We would also become more constructive with increased signs that eBay is addressing these concerns.

Total Listings down 3.1% q/q QTD vs. our -0.3% estimate. Our analysis of daily new listings across 15 countries through Week 10 (June 10, 2007) indicates that eBay's 2Q07 QTD Listings are down 3.1% vs. 1Q07 QTD (assuming average weekly listings). For 2Q07, we are estimating a 0.3% q/q decline. Our listings analysis indicates that the U.S. listings have declined 2.3% vs. our estimate of -2% q/q and international listings are down 3.8% vs. our estimates of a 1% q/q increase. We estimate Germany has declined 9.3% q/q, UK has declined 3.6% q/q, and ROW has increased 3.6% q/q. Our analysis also indicates core listings are down 3.7% q/q while store listings are flat q/q.

eBay Income Statement

Piper Jaffray

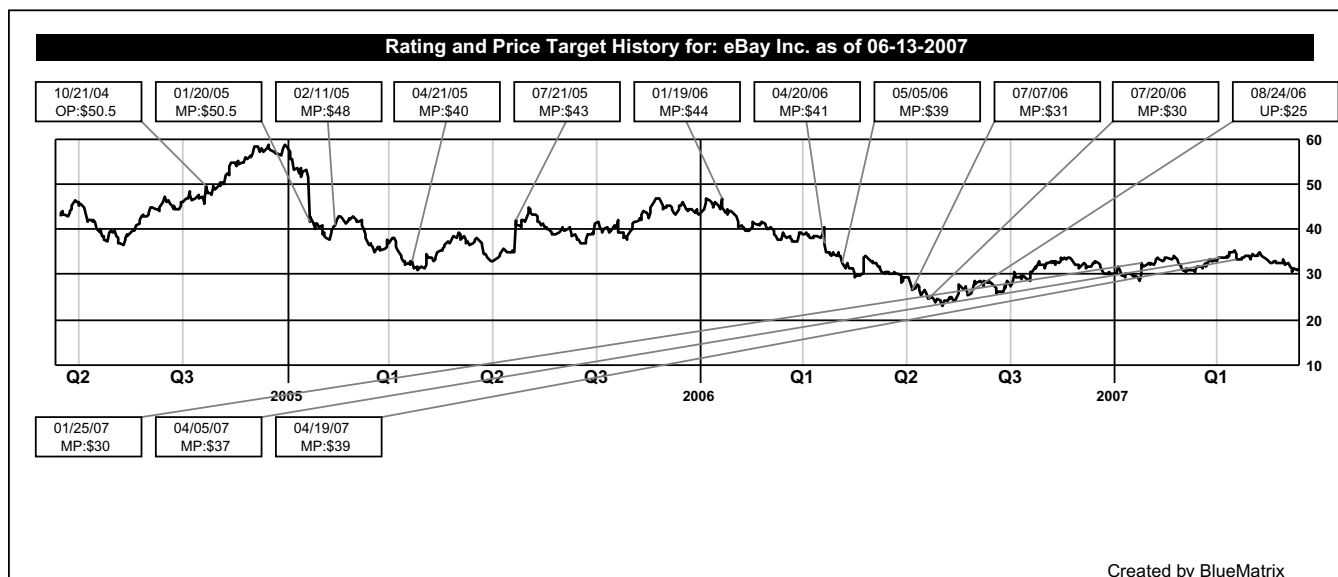
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(\$ in millions, except per share data)

	FYE 2006							FYE 2007				FYE 2008					
	2004	2005	Q1	Q2	Q3	Q4	2006	Q1	Q2E	Q3E	Q4E	2007E	Q1E	Q2E	Q3E	Q4E	2008E
U.S. Marketplace	1,339	1,737	507	490	519	587	2,104	582	577	584	668	2,411	643	640	646	743	2,672
International Marketplace	1,157	1,665	483	507	498	611	2,100	630	642	630	721	2,624	738	746	743	831	3,059
Total Marketplace Revenues	2,496	3,402	991	997	1,017	1,198	4,203	1,212	1,220	1,214	1,390	5,035	1,381	1,386	1,390	1,574	5,730
Payments	681	1,002	328	331	340	403	1,402	419	424	441	508	1,792	526	532	550	627	2,234
Communications	25	35	44	50	63	193	77	88	100	117	382	128	143	155	172	598	
Total Transaction	3,177	4,429	1,354	1,372	1,407	1,665	5,798	1,708	1,732	1,756	2,015	7,210	2,035	2,061	2,094	2,373	8,563
3rd Party Advertising & Other	94	123	37	39	41	55	172	60	64	69	82	276	86	90	96	111	384
Total Revenues	3,271	4,552	1,390	1,411	1,449	1,720	5,970	1,768	1,796	1,824	2,097	7,485	2,121	2,151	2,190	2,484	8,946
Cost of sales	614	818	269	285	308	344	1,206	380	390	398	449	1,617	482	493	504	561	2,040
Gross profit	2,657	3,734	1,121	1,126	1,141	1,375	4,764	1,388	1,407	1,427	1,648	5,869	1,639	1,658	1,686	1,923	6,907
Sales & marketing	858	1,231	364	371	372	440	1,546	424	444	462	530	1,860	505	527	550	623	2,205
Product development	241	328	98	101	101	112	413	122	126	131	145	523	146	148	153	169	617
General & administrative	416	592	201	194	203	249	847	250	255	259	291	1,056	292	297	302	335	1,226
Amortization of intangibles	66	129	52	62	51	50	215	52	56	59	63	230	65	65	65	65	260
Stock compensation expense			84	85	74	75	317	72	77	77	77	303	80	80	80	80	320
Taxes on stock options	17	13	2	0	1	3											
Total operating expenses	1,598	2,293	799	815	802	927	3,342	920	958	988	1,106	3,972	1,088	1,117	1,150	1,273	4,628
Operating income	1,059	1,442	323	311	339	449	1,422	468	449	439	541	1,897	552	541	536	650	2,279
Interest income	78	80	26	25	41	37	129	30	31	36	41	138	46	50	54	58	208
Interest expense	9	3	1	1	1	4	6	5	4	4	4	17	4	4	4	4	16
Net interest income	69	77	25	25	41	34	124	25	27	32	37	121	42	46	50	54	192
Other																	
Pretax income	1,128	1,549	348	336	380	483	1,546	493	476	471	578	2,018	594	587	586	704	2,471
Income tax	344	467	99	86	99	137	421	116	114	113	139	482	141	139	139	167	586
Net income	779	1,082	248	250	281	345	1,125	377	362	358	440	1,536	453	448	447	537	1,885
Pro forma Net Income	836.3	1,175.0	340.5	350.7	367.4	430.5	1,488.7	460.6	450.7	449.2	525.9	1,886.4	551.1	546.2	545.5	627.1	2,269.8
EBITDA Calculation																	
Pro-forma operating income	1,148	1,615	458	460	464	574	1,957	593	584	577	683	2,438	699	688	683	797	2,867
Depreciation	188	230	71	80	84	94	330	92	97	102	107	397	112	117	122	127	477
EBITDA	1,342	1,846	530	541	548	668	2,287	685	681	678	790	2,834	810	805	805	924	3,343
GAAP EPS	\$0.57	\$0.78	\$0.17	\$0.17	\$0.20	\$0.25	\$0.79	\$0.27	\$0.26	\$0.26	\$0.31	\$1.10	\$0.32	\$0.32	\$0.32	\$0.38	\$1.34
Pro-forma EPS	\$0.61	\$0.84	\$0.24	\$0.24	\$0.26	\$0.31	\$1.04	\$0.33	\$0.32	\$0.32	\$0.38	\$1.36	\$0.39	\$0.39	\$0.39	\$0.44	\$1.61
EBITDA per share	\$0.98	\$1.32	\$0.37	\$0.38	\$0.38	\$0.48	\$1.60	\$0.49	\$0.49	\$0.49	\$0.57	\$2.04	\$0.58	\$0.57	\$0.57	\$0.65	\$2.38
Avg. shares, basic	1,319	1,362	1,406	1,412	1,406	1,381	1,401	1,367	1,348	1,353	1,357	1,356	1,361	1,365	1,369	1,374	1,367
Avg. shares, diluted	1,367	1,394	1,438	1,436	1,426	1,403	1,426	1,384	1,388	1,393	1,397	1,391	1,401	1,405	1,409	1,414	1,407

	FYE 2006							FYE 2007				FYE 2008					
	2004	2005	Q1	Q2	Q3	Q4	2006	Q1	Q2E	Q3E	Q4E	2007E	Q1E	Q2E	Q3E	Q4E	2008E
Growth-Y/Y%																	
U.S. Marketplace	30.6%	29.8%	30.5%	20.1%	19.3%	16.3%	21.1%	14.6%	17.7%	12.5%	13.8%	14.6%	10.5%	10.9%	10.7%	11.1%	10.8%
International Marketplace	76.9%	43.9%	24.8%	23.1%	24.0%	31.6%	26.1%	30.4%	26.8%	26.5%	18.0%	25.0%	17.2%	16.0%	17.9%	15.2%	16.5%
Total Marketplace Revenues	48.6%	36.3%	27.7%	21.6%	21.6%	23.6%	23.5%	22.3%	22.3%	19.3%	16.0%	19.8%	14.0%	13.6%	14.5%	13.2%	13.8%
Payments	57.3%	47.2%	44.5%	39.4%	41.7%	35.4%	39.9%	27.7%	28.2%	29.8%	26.1%	27.8%	25.5%	25.5%	24.6%	23.4%	24.7%
Communications						155.6%		119.2%	100.1%	100.3%	84.0%	98.3%	66.5%	62.2%	54.4%	47.2%	56.5%
3rd party Advertising & Other	78.5%	30.8%	27.5%	34.0%	43.6%	49.1%	39.3%	65.3%	66.0%	66.5%	48.8%	60.4%	42.8%	39.4%	39.5%	36.0%	39.2%
Total Revenues	51.1%	39.2%	34.8%	29.9%	31.0%	29.4%	31.1%	27.2%	27.3%	25.9%	21.9%	25.4%	20.0%	19.7%	20.0%	18.5%	19.5%
Organic Rev (ex acq/FX)			30.0%	21.0%	20.0%	21.0%	23.0%										
Gross Profits	51.9%	40.6%	32.6%	25.9%	26.0%	26.3%	27.6%	23.8%	24.9%	25.1%	19.8%	23.2%	18.1%	17.9%	18.2%	16.7%	17.7%
EBITDA	70.0%	37.5%	26.8%	19.2%	20.2%	29.0%	23.9%	29.3%	25.9%	23.7%	18.3%	23.9%	18.3%	18.2%	18.6%	16.9%	18.0%
PF NI	68.7%	40.5%	23.6%	14.2%	31.1%	26.6%	26.7%	35.2%	28.5%	22.3%	22.2%	26.7%	19.7%	21.2%	21.4%	19.3%	20.3%
Expenses - % of revs																	
Cost of Sales	18.8%	18.0%	19.4%	20.2%	21.2%	20.0%	20.2%	21.5%	21.7%	21.8%	21.4%	21.6%	22.7%	22.9%	23.0%	22.6%	22.8%
Sales and Marketing	26.2%	27.0%	26.2%	26.3%	25.7%	25.6%	25.9%	24.0%	24.7%	25.3%	25.3%	24.8%	23.8%	24.5%	25.1%	25.1%	24.6%
Product Development	7.4%	7.2%	7.1%	7.2%	7.0%	6.5%	6.9%	6.9%	7.0%	7.2%	6.9%	7.0%	6.9%	6.9%	7.0%	6.8%	6.9%
General and Administrative	12.7%	13.0%	14.4%	13.7%	14.0%	14.5%	14.2%	14.2%	14.2%	14.2%	13.9%	14.1%	13.8%	13.8%	13.8%	13.5%	13.7%
Total Operating Exp.	48.8%	50.4%	57.4%	57.7%	55.4%	53.9%	56.0%	52.0%	53.3%	54.2%	52.8%	53.1%	51.3%	51.9%	52.5%	51.2%	51.7%
Effective tax rate (GAAP)	30.5%	30.2%	28.6%	25.6%	26.0%	28.4%	27.3%	23.5%	24.0%	24.0%	24.0%	23.9%	23.7%	23.7%	23.7%	23.7%	23.7%
Margins																	
Gross	81.2%	82.0%	80.6%	79.8%	78.8%	80.0%	79.8%	78.5%	78.3%	78.2%	78.6%	78.4%	77.3%	77.1%	77.0%	77.4%	77.2%
Operating (GAAP)	32.4%	31.7%	23.2%	22.1%	23.4%	26.1%	23.8%	26.5%	25.0%	24.0%	25.8%	25.3%	26.0%	25.2%	24.5%	26.2%	25.5%
Operating (PF)	35.1%	35.5%	33.0%	32.6%	32.1%	33.4%	32.8%	33.6%	32.5%	31.6%	32.6%	32.6%	32.9%	32.0%	31.2%	32.1%	32.0%
EBITDA	41.0%	40.5%	38.1%	38.3%	37.8%	38.8%	38.3%	38.7%	37.9%	37.2%	37.7%	37.9%	38.2%	37.4%	36.7%	37.2%	37.4%
PF Net	25.6%	25.8%	24.5%	24.9%	25.4%	25.0%	24.9%	26.0%	25.1%	24.6%	25.1%	25.2%	26.0%	25.4%	24.9%	25.2%	25.4%
Key Metrics																	
Total Listings	1,404	1,876	575	596	584	610	2,367	588	586	579	635	2,389	632	630	623	679	2,565
GMV	34,																

Important Research Disclosures



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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D: Discontinuing Coverage

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T: Transferring Coverage

SB: Strong Buy (effective 01/12/04, Equity Research eliminated the SB rating)

OP: Outperform

MP: Market Perform

UP: Underperform

NA: Not Available

UR: Under Review

GP On: Listed on one of the Guided Portfolios maintained by Piper Jaffray

GP Off: Removed from the Guided Portfolios maintained by Piper Jaffray

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			Count	Percent
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HOLD [MP]	238	39.08	24	10.08
SELL [UP]	20	3.28	0	0.00

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Analyst Certification — Aaron M. Kessler, CFA, Sr Research Analyst

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