

# Update: EBay to Acquire VoIP provider Skype

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Online auction site eBay has agreed to acquire Internet-telephone provider Skype for at least \$2.6 billion, in a move that could change the way buyers and sellers interact.

In a statement on eBay's Web site, CEO Meg Whitman explained that the auction site plans on making voice communication a part of the online marketplace, in an effort to bring "even more interactivity and humanity" to the eBay community.

In an investor conference call, eBay explained that the addition of Skype would be particularly helpful for transactions requiring significant communication, such as deals for expensive or complex items including cars, collectibles and musical instruments. Ebay highlighted the "power of three" in its presentation, noting its relationship with online payment service PayPal along with Skype.

"Communications is at the heart of e-commerce and community," Whitman said in a press release Monday. "By combining the two leading e-commerce franchises, eBay and PayPal, with the leader in Internet voice communications, we will create an extraordinarily powerful environment for business on the Net."

Luxembourg-based Skype allows users to engage in voice communicate online and is available to anyone with an Internet connection. Skype users can talk to one another for free, and for a price, they can call or receive calls from traditional phones. Skype has 54 million members in

225 countries. Ebay has 157 million users.

Whitman explained that in the course of an auction, buyers ask questions before they bid, as they finalize a purchase and upon completion of a transaction, resulting in more than 5 million e-mails per day between buyers and sellers.

But because 30 percent of bidding takes place during the last two hours of an auction, instant communication is crucial, she said.

Communication could become easier once Skype is integrated into an auction's page, she said. Ebay would charge sellers for each Skype call they receive. Buyers would not have access to a seller's phone number, and would instead only have access to a username, to protect privacy.

Kelly Larabee, a spokesperson for Skype, said there is no timeline yet for when eBay will integrate Skype into its auctions. Hani Durzy, a spokesperson for eBay, said a timetable won't be released until the Skype deal is finalized, which he said is expected to happen in the fourth quarter of this year.

"Historically, for those of you have followed the company, you know we've always sought to remove friction from e-commerce," Whitman said in the conference call. "We've systematically reduced various forms of friction in the marketplace over the years."

The presentation also said Skype would help eBay expand in emerging markets such as India, China, Poland Brazil and Russia, where people have a culture of haggling and may distrust the Internet. The companies also hope that in places where eBay has a limited presence, including Japan and Scandinavia, customers could learn more about eBay through Skype.

"We're great admirers of how eBay and PayPal have simplified global e-commerce and payments," said Janus Friis, Skype co-founder and senior

vice president of strategy, in a news release. "Together we feel we can really change the way that people communicate, shop and do business online."

The two companies also plan on integrating Skype into eBay's other sites, Shopping.com, Rent.com, Marktplaats.nl - a dutch auction site and Kijiji - an international network of classified sites.

Skype can receive up to an additional \$1.5 billion in cash or eBay stock based on its performance. In 2004, Skype's revenue was about \$7 million, but it is predicting \$60 million this year and more than \$200 million in 2006.

Ebay projected that the Skype deal may temporarily affect earnings, lowering them by 4 cents in fourth quarter of 2005 and 12 cents per share in 2006.

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