

Omidyar Network Fund, Inc.

Report on Audits of Financial Statements

December 31, 2006 and 2005

Report of Independent Auditors

To the Board of Trustees of
Omidyar Network Fund, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Omidyar Network Fund, Inc. (the "Foundation") at December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 13, 2007

Omidyar Network Fund, Inc.
Statements of Financial Position
December 31, 2006 and 2005

| | 2006 | 2005 |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 124,650,137 | \$ 94,911,909 |
| Receivable for investments sold | 10,130,136 | - |
| Interest and dividends receivable | 264,839 | 234,106 |
| Federal excise tax receivable | - | 183,603 |
| Prepaid expenses | 8,000 | 80,000 |
| Investments | 148,507,639 | 127,650,860 |
| Program related investment | 655,580 | - |
| Total assets | <u>\$ 284,216,331</u> | <u>\$ 223,060,478</u> |
| Liabilities and Net Assets | | |
| Accrued liabilities | \$ 30,328 | \$ 24,000 |
| Grants payable | 715,960 | 19,786 |
| Current excise tax liability | 633,260 | - |
| Deferred federal excise tax liability | 495,000 | 315,000 |
| Total liabilities | <u>1,874,548</u> | <u>358,786</u> |
| Unrestricted net assets | <u>282,341,783</u> | <u>222,701,692</u> |
| Total liabilities and unrestricted net assets | <u>\$ 284,216,331</u> | <u>\$ 223,060,478</u> |

The accompanying notes are an integral part of these financial statements.

Omidyar Network Fund, Inc.
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2006 and 2005

| | 2006 | 2005 |
|--|-----------------------|-----------------------|
| Revenues and support | | |
| Interest and dividends, net | \$ 7,001,965 | \$ 2,156,772 |
| Net realized gains on investments | 1,453,791 | 674,423 |
| Net unrealized gains on investments | 8,637,081 | 1,282,581 |
| Total revenues and support | <u>17,092,837</u> | <u>4,113,776</u> |
| Expenses and losses | | |
| Program expenses | | |
| Grants | <u>18,497,338</u> | <u>20,265,278</u> |
| Total program expenses | 18,497,338 | 20,265,278 |
| Federal excise tax expense | <u>1,658,495</u> | <u>812,819</u> |
| Total expenses | <u>20,155,833</u> | <u>21,078,097</u> |
| Deficit of revenues and support over expenses before contributed marketable securities and net assets and services | (3,062,996) | (16,964,321) |
| Contributed investments | 62,703,087 | 21,938,000 |
| Contributed assets from TOF dissolution | - | <u>169,386,744</u> |
| Increase in unrestricted net assets before contributed services | <u>59,640,091</u> | <u>174,360,423</u> |
| Contributed services and in-kind gifts from Omidyar Network Services LLC | | |
| Contributed services and in-kind gifts | 4,925,000 | 3,850,000 |
| Related expenses | <u>(4,925,000)</u> | <u>(3,850,000)</u> |
| Increase in unrestricted net assets | <u>59,640,091</u> | <u>174,360,423</u> |
| Unrestricted net assets at beginning of year | <u>222,701,692</u> | <u>48,341,269</u> |
| Unrestricted net assets at end of year | <u>\$ 282,341,783</u> | <u>\$ 222,701,692</u> |

The accompanying notes are an integral part of these financial statements.

Omidyar Network Fund, Inc.
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

| | 2006 | 2005 |
|---|-----------------------|-----------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 59,640,091 | \$ 174,360,423 |
| Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities | | |
| Contributed investments and other assets | (62,703,087) | (147,277,842) |
| Net unrealized gains on investments | (8,637,081) | (1,282,581) |
| Net realized gains on investments | (1,453,791) | (674,423) |
| Changes in assets and liabilities | | |
| Interest and dividends receivable | (30,733) | (165,048) |
| Federal excise tax receivable | 183,603 | (7,181) |
| Prepaid expenses | 72,000 | (80,000) |
| Other assets | - | 1,101 |
| Accrued liabilities | 6,328 | 24,000 |
| Grants payable | 696,174 | (291,755) |
| Current excise tax liability | 633,260 | (795,000) |
| Deferred federal excise tax liability | 180,000 | 315,000 |
| Net cash (used in) provided by operating activities | <u>(11,413,236)</u> | <u>24,126,694</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (38,416,673) | (1,306,125) |
| Proceeds from sale of investments | <u>79,568,137</u> | <u>22,713,689</u> |
| Net cash provided by investing activities | <u>41,151,464</u> | <u>21,407,564</u> |
| Net increase in cash and cash equivalents | <u>29,738,228</u> | <u>45,534,258</u> |
| Cash and cash equivalents | | |
| Cash and cash equivalents at beginning of year | <u>94,911,909</u> | <u>49,377,651</u> |
| Cash and cash equivalents at end of year | <u>\$ 124,650,137</u> | <u>\$ 94,911,909</u> |
| Supplemental disclosures of cash flow information | | |
| Federal excise taxes paid | \$ 600,000 | \$ 1,380,000 |
| Supplemental schedule of noncash activities and transfer from TOF dissolution | | |
| Contributed investments | \$ 62,703,087 | \$ 21,938,000 |
| Receivable for investments sold | 10,130,136 | - |
| Transfer of assets from TOF dissolution | | |
| Cash and cash equivalents | - | 44,046,902 |
| Investments | - | 125,163,420 |
| Federal excise tax receivable | - | 176,422 |
| | <u>\$ 72,833,223</u> | <u>\$ 191,324,744</u> |

The accompanying notes are an integral part of these financial statements.

Omidyar Network Fund, Inc.

Notes to Financial Statements

December 31, 2006 and 2005

1. Organization

Omidyar Network Fund, Inc. (the "Foundation") is a 501(c)(3) entity incorporated in the State of Delaware. Pierre M. Omidyar, Pamela K. Omidyar, Iqbal F. Paroo and Michael G. Mohr serve on the Board of Trustees with Pierre M. Omidyar serving as Chairman of the Board.

The purpose of the Foundation is to support nonprofit organizations that enhance the conditions that enable individuals to improve their lives. These conditions include equal access to information, tools and opportunities, the ability to connect to others with shared interests, and a sense of ownership for participants.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States applicable to nonprofit organizations.

Revenues, gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expenses are reported as decreases in unrestricted net assets.

Contributions are recognized at fair value in the period received. The Foundation has been funded through contributions received from the Pierre M. Omidyar Trust, a related party. To date, such contributions have been unrestricted. In addition, during 2005, the Foundation received contributed assets resulting from the dissolution of The Omidyar Foundation ("TOF").

Unrestricted Net Assets

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support the Foundation's activities.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments purchased with a remaining maturity of three months or less. The Foundation deposits cash and cash equivalents with high credit quality financial institutions. At times, such amounts may exceed federally insured limits.

Investments

Investments in readily marketable debt and equity securities are reported at fair value on the basis of quoted market values. Fair value is determined using daily closing last trade prices, where available, for all tradeable instruments. Securities purchases and sales are recorded on a trade-date basis.

Alternative investments are primarily made under agreements to participate in limited partnerships and are generally subject to certain withdrawal restrictions. These investments are valued on the basis of the Foundation's pro rata interest in the net assets of the partnership. Because no readily ascertainable market value exists for these investments, the values are based on the latest available

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valuations as determined in good faith by the general partner of each partnership. Management believes that this method provides a reasonable estimate of fair value. Due to the inherent uncertainty of valuations, however, these amounts may differ materially from values that would be determined if the investments were publicly traded.

In September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), was issued and is effective for the fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Management is currently evaluating the impact, if any, that the adoption of SFAS 157 will have on the Foundation's financial statements.

Program related investment

Investments are classified as program related investments when they have a direct linkage to the Foundation's strategic purpose. Program related investment at December 31, 2006 represents the fair market value of an investment in a private equity fund. The investment is valued on the basis of the Foundation's pro rata interest in the net assets of the partnership, as determined in good faith by the general partner. Management believes that this method provides a reasonable estimate of fair value.

Investment Income

Dividends and interest are accrued as earned.

Grants

Grants expense includes unconditional grants. Unconditional grants are expensed when they are approved. Certain grants may be subject to the grantee fulfilling specific conditions. Such conditional grants are considered commitments and are not recorded as expense until the conditions of the grant are met.

Taxes

The Foundation has received a determination letter from the Internal Revenue Service indicating that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended. The Foundation has applied to the State of California for tax-exempt status and the application is pending. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, the Foundation is subject to a federal excise tax. The Foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments.

3. Investments

Investments held at December 31:

| | 2006 | 2005 |
|-----------------------------|-----------------------|-----------------------|
| Fixed income securities | \$ 34,644,931 | \$ 33,065,365 |
| Convertible debt securities | 24,180,477 | 17,773,782 |
| Public equity securities | 23,537,244 | 20,693,562 |
| Alternative investments | 66,144,987 | 56,118,151 |
| Total investments | <u>\$ 148,507,639</u> | <u>\$ 127,650,860</u> |

At December 31, 2006, the Foundation had unfunded commitments of \$20,763,989 related to certain alternative investments. The unfunded portion of these commitments can be called at the request of each general partner.

Omidyar Network Fund, Inc.

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4. Related Party Transactions

Marketable securities contributed in 2006 and 2005 were donated by the Pierre M. Omidyar Trust. In addition, the Trust pays for investment management services performed by Comprehensive Financial Management for the Foundation.

During 2006 and 2005, Omidyar Network Services LLC, a subsidiary of Omidyar Network LLC, and an affiliated entity, provided program and general and administrative support to and paid for professional legal costs and rent on behalf of the Foundation. Contributed services and in-kind gifts consist of operating expenses of Omidyar Network Services LLC allocated to the Foundation based on the percentage of the Foundation's annual grant and program related investment commitments to the total annual commitments of both the Foundation and Omidyar Network LLC. The amount of contributed services recognized as support and the related expense for the years ended December 31, 2006 and 2005 totaled \$4,925,000 and \$3,850,000, respectively.

5. Grants

Grant expenses for December 31, are as follows:

| | 2006 | 2005 |
|--|----------------------|----------------------|
| Grant payments | \$ 17,801,164 | \$ 20,557,033 |
| Less: amounts committed in previous years and paid | (19,786) | (311,541) |
| Future payments committed on unconditional grants | <u>715,960</u> | <u>19,786</u> |
| Grant expenses | <u>\$ 18,497,338</u> | <u>\$ 20,265,278</u> |

All grants payable are due within one year and are recorded at face value.

The Foundation has conditional grants totaling \$14,125,000 that are payable over the next two years. Future installments are payable upon the satisfaction of certain conditions and therefore, will not be accrued until such conditions have been met.

6. Federal Excise Tax

The Internal Revenue Code (the "Code") imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax may be reduced to 1% for foundations that meet certain distribution requirements under Section 4940(e) of the Code. The Foundation was subject to the 2% rate for 2006 and 2005. A deferred excise tax provision is recognized on current net unrealized gains on investments.

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The amount of excise taxes paid in 2006 and 2005 were \$600,000 and \$1,380,000, respectively. The expense for federal excise tax is as follows:

| | 2006 | 2005 |
|----------------------------|---------------------|-------------------|
| Current | \$ 1,478,495 | \$ 497,819 |
| Deferred | <u>180,000</u> | <u>315,000</u> |
| Federal excise tax expense | <u>\$ 1,658,495</u> | <u>\$ 812,819</u> |

7. Beneficial Interest in Ho'omaka Remainder Trust

On February 1, 1999, Pierre M. Omidyar created The Ho'omaka Trust (the "Trust"). Under the agreement, the Trust makes quarterly payments based on the net fair value of its assets to Mr. Omidyar for the rest of his life. Upon Mr. Omidyar's death, assets in the Trust will be distributed to an organization if one is appointed by Mr. Omidyar's will, and remaining unassigned assets, if any, will be distributed to the Foundation. The present value of the estimated remaining unassigned assets at December 31, 2006 and 2005 was \$5,594,927 and \$6,019,842, respectively. This amount is not included in the accompanying financial statements as it is not certain that the Foundation will ultimately receive the unassigned assets.