

# Omidyar Network Fund, Inc.

Financial Statements

December 31, 2009 and 2008

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**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, 2009 and 2008, 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 audit 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 30, 2010

**Omidyar Network Fund, Inc.**  
**Statements of Financial Position**  
**December 31, 2009 and 2008**

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	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 72,668,353	\$ 67,218,523
Receivable for investments sold	2,314,988	442,874
Interest and dividends receivable	265,622	236,504
Prepaid federal excise tax	107,705	1,578,516
Investments	159,138,065	159,842,022
Program related investments	14,934,677	13,145,895
Total assets	<u>\$ 249,429,410</u>	<u>\$ 242,464,334</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 41,339	\$ 31,370
Grants payable	3,399,260	3,345,042
Payable for investments purchased	2,442,773	-
Deferred federal excise tax liability	179,730	-
Total liabilities	<u>6,063,102</u>	<u>3,376,412</u>
Unrestricted net assets	<u>243,366,308</u>	<u>239,087,922</u>
Total liabilities and unrestricted net assets	<u>\$ 249,429,410</u>	<u>\$ 242,464,334</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, 2009 and 2008**

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	2009	2008
<b>Revenues and support</b>		
Contributed services and in-kind gifts	\$ 9,701,432	\$ 6,141,492
Interest and dividends, net	1,573,170	3,951,712
Net realized gains (losses) on investments	2,436,856	(15,272,736)
Net unrealized gains (losses) on investments	20,922,478	(38,256,836)
Total revenues and support	<u>34,633,936</u>	<u>(43,436,368)</u>
<b>Expenses and losses</b>		
Program expenses		
Grants	20,567,735	50,756,149
Other program expenses	3,287,982	1,487,357
Total program expenses	<u>23,855,717</u>	<u>52,243,506</u>
Administrative expenses	6,311,057	4,586,992
Federal excise tax expense (benefit)	188,776	(1,508,980)
Total expenses	<u>30,355,550</u>	<u>55,321,518</u>
Increase (decrease) in unrestricted net assets	<u>4,278,386</u>	<u>(98,757,886)</u>
Unrestricted net assets at beginning of year	<u>239,087,922</u>	<u>337,845,808</u>
Unrestricted net assets at end of year	<u>\$ 243,366,308</u>	<u>\$ 239,087,922</u>

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

**Omidyar Network Fund, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 4,278,386	\$ (98,757,886)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net unrealized (gains) losses on investments	(20,922,478)	38,256,836
Net realized (gains) losses on investments	(2,436,856)	15,272,736
Amortization on investments	5,270	-
Deferred federal excise tax expense (benefit)	179,730	(2,109,621)
Changes in assets and liabilities		
Interest and dividends receivable	(29,118)	19,018
Prepaid federal excise tax	1,470,811	(1,292,783)
Accounts payable and accrued liabilities	9,969	(7,345)
Grants payable	54,218	303,791
Net cash used in operating activities	<u>(17,390,068)</u>	<u>(48,315,254)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(47,304,391)	(38,388,810)
Distributions from investments	2,732,466	942,005
Proceeds from sale of investments	67,411,823	90,789,979
Net cash provided by investing activities	<u>22,839,898</u>	<u>53,343,174</u>
Net change in cash and cash equivalents	5,449,830	5,027,920
Cash and cash equivalents at beginning of year	<u>67,218,523</u>	<u>62,190,603</u>
Cash and cash equivalents at end of year	<u>\$ 72,668,353</u>	<u>\$ 67,218,523</u>
<b>Supplemental disclosure of cash flow information</b>		
Federal excise taxes paid	\$ -	\$ 1,895,388
<b>Supplemental schedule of noncash activities</b>		
Receivable for investments sold	2,314,988	442,874
Payable for investments purchased	2,442,773	-

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

# Omidyar Network Fund, Inc.

## Notes to Financial Statements

### December 31, 2009 and 2008

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#### 1. Organization

Omidyar Network Fund, Inc. (the "Foundation") is a 501(c)(3) entity incorporated in the State of Delaware. The purpose of the Foundation is to support non-profit organizations that employ market-based approaches to create opportunities for people to improve their lives, thereby catalyzing economic, social and political change.

#### 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 ("the Trust"), a related party. To date, such contributions have been unrestricted.

##### 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. At times, such amounts may exceed federally insured limits.

##### Investments and Program Related Investments

Investments, including program related investments, are reported at fair value. Fair value is defined as the amount at which an asset could be exchanged between unrelated willing market participants, in an orderly transaction at the measurement date (i.e. the exit price). Investments are classified as program related investments when they have a direct link to the Foundation's strategic purpose.

Securities listed on a securities exchange are valued at the last quoted sale price from the principal market on which the security is traded. Investments in open-end mutual funds are valued at the closing net asset value. Securities that trade in over-the-counter markets, including most debt and convertible securities, are valued within the range of the most recent quoted bid and ask prices or if such quotes are not available may be valued using evaluated prices determined by the Foundation's pricing services. The Foundation's pricing services may use valuation models which consider information with respect to comparable bond and note transactions, quotations from bond dealers, conversion premiums, interest rate spreads and yield curves to determine current value.

# Omidyar Network Fund, Inc.

## Notes to Financial Statements

### December 31, 2009 and 2008

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Private equity investments are not registered for public sale and are carried at estimated fair value as determined in good faith by the Foundation's management after consideration of available relevant financial, operational, and economic data. Significant factors considered in the estimation of fair value include but are not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Investments in limited partnerships, which include private equity funds, venture capital funds and hedge funds are generally subject to certain withdrawal restrictions. Because no readily ascertainable market value exists for these investments, the estimated fair values are determined in good faith by the Foundation's management on the basis of the latest available valuations of the Foundation's pro-rata interest in the net assets of the partnership as determined in good faith by the general partner of each partnership.

The Foundation has adopted the authoritative guidance under GAAP for estimating the fair value of investments in investment companies, including limited partnerships that have calculated net asset value in accordance with the specialized accounting guidance for investment companies. Accordingly, in circumstances in which the fair value of an investment in a limited partnership is not readily determinable, the Foundation estimates the fair value of an investment in a limited partnership using the net asset value of the investment without further adjustment, if the net asset value per share of the investment is determined in accordance with the specialized accounting guidance for investment companies as of the reporting entity's measurement date. The adoption of this guidance did not have a material effect on the financial statements.

Management may determine to adjust the valuations after consideration of relevant factors that market participants would consider in a transaction for an interest in the partnership including redemption restrictions.

#### **Investment Income**

Dividends and interest are accrued as earned and are presented on the Statement of Activities and Changes in Net Assets net of investment expenses of \$258,000 and \$228,000 for 2009 and 2008, respectively.

#### **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.

#### **Reclassifications**

Certain reclassifications have been made to the 2008 balances to conform to the 2009 presentation of revenue and support and expenses. These reclassifications had no effect on the change in net assets in 2008 or total net assets at December 31, 2008.

#### **Recent Accounting Pronouncements**

In April 2009, FASB issued ASC Topics 820-10-35, 50 and 55, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased*. This provides additional guidance on estimating the fair value of an asset where the level of activity has decreased significantly, and affirms that the objective fair value is the price that would be received to sell the

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

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asset in an orderly transaction, even when the market for the asset is not active. The Foundation adopted ASC Topics 820-10-35, 50 and 55 effective January 1, 2009.

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, *Investment in Certain Entities That Calculate Net Asset Value per Share* (ASU 2009-12). ASU 2009-12 amends ASC Topic 820, Fair Value Measurements, adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accounts (AICPA) Guide in arriving at their reported NAV. The Foundation adopted ASU 2009-12 effective January 1, 2009.

In January 2010, The FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC Topic 820 to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective January, 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; this is effective January, 2011. The adoption of this guidance is not expected to have a material impact on the Foundation's financial statements.

**3. Investments**

Investments held at December 31:

	<b>2009</b>	<b>2008</b>
Convertible securities	\$ 32,677,531	\$ 19,360,716
Public equity securities	18,521,328	15,336,084
Fixed income securities	8,693,183	39,004,183
Private equity, venture capital and hedge funds	99,246,023	86,141,039
Total investments	<u>\$ 159,138,065</u>	<u>\$ 159,842,022</u>

At December 31, 2009 and 2008, the Foundation had unfunded commitments of \$7,521,600 and \$9,205,800, respectively, related to certain private equity, venture capital and hedge funds. The unfunded portion of these commitments can be called at any time at the request of each general partner.

**4. Program Related Investments**

Program related investments ("PRI") held at December 31:

	<b>2009</b>	<b>2008</b>
Private equity	\$ 8,958,298	\$ 5,300,000
Private equity and venture capital funds	5,976,379	7,845,895
Total investments	<u>\$ 14,934,677</u>	<u>\$ 13,145,895</u>



**Omidyar Network Fund, Inc.**  
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At December 31, 2009 and 2008, the Foundation had unfunded commitments of \$7,108,168 and \$7,275,453, respectively, related to investments in limited partnerships and \$4,000,000 and \$4,000,000 respectively, related to a private equity investment. The unfunded commitments to private equity and venture capital funds can be called at any time at the request of the general partners and are not accrued until called. The unfunded commitment to the private equity investment is payable upon the satisfaction of certain conditions and therefore, will not be accrued until such conditions have been met.

**5. Investment Valuation**

FASB Accounting Standards Codification ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment.

An investment's categorization within the valuation hierarchy is based upon the lowest level input that is significant to the fair value measurement.

**Omidyar Network Fund, Inc.**  
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The following table presents the investments carried at fair value on the Statement of Financial Position as of December 31, 2009 by ASC 820 valuation hierarchy (as described above):

	<b>Assets at Fair Value as of December 31, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Convertible securities	\$ -	\$ 32,677,531	\$ -	\$ 32,677,531
Public equity securities	18,521,328	-	-	18,521,328
Fixed income securities	-	8,693,183	-	8,693,183
Private equity, venture capital and hedge funds	-	80,591,430	18,654,593	99,246,023
PRI - Private equity	-	-	8,958,298	8,958,298
PRI - Private equity and venture capital funds	-	-	5,976,379	5,976,379
<b>Total</b>	<b>\$ 18,521,328</b>	<b>\$ 121,962,144</b>	<b>\$ 33,589,270</b>	<b>\$ 174,072,742</b>

The following table presents the investments carried at fair value on the Statement of Financial Position as of December 31, 2008 by ASC 820 valuation hierarchy (as described above):

	<b>Assets at Fair Value as of Decemer 31, 2008</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Convertible securities	\$ -	\$ 19,360,716	\$ -	\$ 19,360,716
Public equity securities	15,336,084	-	-	15,336,084
Fixed income securities	37,907,595	1,096,588	-	39,004,183
Private equity, venture capital and hedge funds	-	-	86,141,039	86,141,039
PRI - Private equity	-	-	5,300,000	5,300,000
PRI - Private equity and venture capital funds	-	-	7,845,895	7,845,895
<b>Total</b>	<b>\$ 53,243,679</b>	<b>\$ 20,457,304</b>	<b>\$ 99,286,934</b>	<b>\$ 172,987,917</b>

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
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The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2009 (including the change in fair value) for investments classified within level 3 of the fair value hierarchy.

**Fair Value Measurements Using Level 3 Inputs**

	<b>Private equity, venture capital and hedge funds</b>	<b>PRI - private equity</b>	<b>PRI - private equity and venture capital funds</b>	<b>Total</b>
<b>Balance at December 31, 2008</b>	\$ 86,141,039	\$ 5,300,000	\$ 7,845,895	\$ 99,286,934
Net payments, purchases and sales	1,180,435	3,797,312	(1,934,904)	3,042,843
Gains/(Losses)				
Realized	575,004	-	1,456,433	2,031,437
Unrealized	764,981	(139,014)	(1,391,045)	(765,078)
Transfers in (out) of Level 3	(70,006,866)	-	-	(70,006,866)
<b>Balance at December 31, 2009</b>	<u>\$ 18,654,593</u>	<u>\$ 8,958,298</u>	<u>\$ 5,976,379</u>	<u>\$ 33,589,270</u>

The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2008 (including the change in fair value) for investments classified within level 3 of the fair value hierarchy.

	<b>Private equity, venture capital and hedge funds</b>	<b>PRI - private equity</b>	<b>PRI - private equity and venture capital funds</b>	<b>Total</b>
<b>Balance at January 1, 2008</b>	\$ 108,693,466	\$ -	\$ 3,253,498	\$ 111,946,964
Net payments, purchases and sales	6,028,663	5,300,000	1,085,294	12,413,957
Gains/(Losses)				
Realized	340,525	-	-	340,525
Unrealized	(28,921,615)	-	3,507,103	(25,414,512)
Transfers in (out) of Level 3	-	-	-	-
<b>Balance at December 31, 2008</b>	<u>\$ 86,141,039</u>	<u>\$ 5,300,000</u>	<u>\$ 7,845,895</u>	<u>\$ 99,286,934</u>

All net realized and unrealized gains and losses are included within revenue in the Statement of Activities and Changes in Net Assets.

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
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The Foundation uses net asset value (NAV) to determine the fair value of its investments in limited partnerships. The following table lists such investments by major category:

	<b>Number of funds</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions in Place at Year End</b>
(a) Hedge funds - equity strategies	3	\$ 39,179,370	\$ -	Ranges from monthly redemption with 35 days' notice to annual redemption with 90 days' notice	None
(b) Hedge funds - diversified	1	26,632,057	-	Semiannually with 90 days' notice	None
(c) Private equity and venture capital funds - U.S.	6	18,654,593	7,521,600	Not redeemable	N/A
(d) Hedge funds - debt strategies	2	14,780,003	-	Monthly with 45 days' notice and annually with 90 days' notice	None
(e) PRI - Private equity funds - non U.S.	2	5,976,379	7,108,168	Not redeemable	N/A
<b>Total</b>	<b>14</b>	<b>\$105,222,402</b>	<b>\$ 14,629,768</b>		

(a) This category includes investments in hedge funds that primarily pursue equity value strategies that provide superior risk-adjusted returns.

(b) This category includes investments in a hedge fund that pursues multiple strategies to diversify risks and reduce volatility including U.S. equity value and growth opportunities, distressed debt, arbitrage and emerging market equities.

(c) This category includes several private equity and venture capital funds that invest primarily in U.S. private companies. Distributions from these funds will be received as the underlying investments of the funds are liquidated.

(d) This category includes investments in hedge funds that primarily invest in multi-credit debt strategies that include investments in distressed debt

(e) This category includes two private equity funds that invest primarily in microfinance institutions in emerging economies and small to medium enterprises within India. Distributions from these funds will be received as the underlying investments of the funds are liquidated.

**Omidyar Network Fund, Inc.**  
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**6. Related Party Transactions**

During 2009 and 2008, Omidyar Network Services LLC, a subsidiary of Omidyar Network LLC, and an affiliated entity of the Foundation, provided program and general and administrative support to and paid for professional legal costs on behalf of the Foundation. Contributed services and in-kind gifts are allocated to the Foundation based on the percentage of the Foundation's annual grant and program related investment transactions to the total annual transactions of both the Foundation and Omidyar Network LLC. The allocated amount may fluctuate significantly as the transaction mix changes from year to year. The amount of contributed services and in-kind gifts from Omidyar Network Services LLC is recognized as support. The support and related expense for the years ended December 31, 2009 and 2008 totaled \$8,818,000 and \$5,325,000, respectively. In addition, other affiliated entities and related parties provided in-kind services related to investment management expenses, travel and rent of \$883,000 during 2009 and \$816,000 during 2008, to the Foundation.

**7. Grants**

Grant expenses for December 31, are as follows:

	<b>2009</b>	<b>2008</b>
Grant payments	\$ 20,513,517	\$ 50,452,358
Less: amounts committed in previous years and paid	(1,845,042)	(2,791,251)
Future payments committed in the current year on unconditional grants	<u>1,899,260</u>	<u>3,095,042</u>
Grant expenses	<u>\$ 20,567,735</u>	<u>50,756,149</u>

Grants payable are due as follows: \$1,399,260 due in 2010; \$900,000 due in 2011; \$800,000 due in 2012 and \$300,000 due in 2013. All grants payable are recorded at face value, which, as of December 31, 2009 and December 31, 2008 was immaterially different from present value.

As of December 31, 2009 and 2008, the Foundation has conditional grants totaling \$26,227,675 and \$10,200,000, respectively. Future installments are payable upon the satisfaction of certain conditions and therefore, will not be accrued until such conditions have been met.

**8. Taxes**

Omidyar Network Fund, Inc. is a private foundation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and from state income taxes under Section 23701(d) of the Revenue and Taxation Code of the State of California, respectively. Private foundations are subject to a federal excise tax on net investment income and may reduce their federal excise tax rate from 2% to 1% by exceeding a certain grant payout target for the year. The Foundation was subject to the 2% rate for 2009 and qualified for the 1% tax rate in 2008. At December 31, 2009, a deferred excise tax liability of 2% is recognized on net unrealized gains on investments. At December 31, 2008, the Foundation held a deferred excise tax asset resulting from net unrealized losses on investments. The Foundation recorded a full valuation allowance of \$278,967 against the deferred excise tax asset. Certain investments provide unrelated business income which is subject to unrelated business income tax. For the years ended December 31, 2009 and December 31, 2008 the unrelated business income provided by investments was immaterial.

**Omidyar Network Fund, Inc.**  
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The amount of excise taxes paid in 2009 and 2008 was \$0 and \$1,895,388, respectively.

The expense (benefit) for federal excise tax is as follows:

	<b>2009</b>	<b>2008</b>
Current	\$ 9,046	\$ 600,641
Deferred	179,730	<u>(2,109,621)</u>
Federal excise tax expense (benefit)	<u>\$ 188,776</u>	<u>\$ (1,508,980)</u>

The Foundation believes that it has appropriate support for the excise tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation's financial position or changes in net assets.

**9. Subsequent Events**

The Foundation has evaluated subsequent events for the period from December 31, 2009 through June 30, 2010, the date the financial statements were available to be issued. During this period, the Foundation did not have any material subsequent events.