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EBAY INC

Form 10-Q

October 31, 2018

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**



**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

**OR**  
 **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 001-37713**

**eBay Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**77-0430924**

(I.R.S. Employer Identification Number)

**2025 Hamilton Avenue  
San Jose, California**

(Address of principal executive offices) (Zip Code)

**(408) 376-7008**

(Registrant's telephone number, including area code)

**95125**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or, an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 29, 2018, there were 962,827,199 shares of the registrant's common stock, \$0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

**PART I: FINANCIAL INFORMATION****Item 1: Financial Statements****eBay Inc.****CONDENSED CONSOLIDATED BALANCE SHEET**

	September 30, 2018	December 31, 2017
	(In millions, except par value) (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,086	\$ 2,120
Short-term investments	2,752	3,743
Accounts receivable, net	761	696
Other current assets	1,364	1,185
Total current assets	6,963	7,744
Long-term investments	4,276	6,331
Property and equipment, net	1,580	1,597
Goodwill	5,170	4,773
Intangible assets, net	106	69
Deferred tax assets	4,992	5,199
Other assets	565	273
Total assets	\$ 23,652	\$ 25,986
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 1,546	\$ 781
Accounts payable	225	330
Accrued expenses and other current liabilities	1,989	2,134
Deferred revenue	163	137
Income taxes payable	83	177
Total current liabilities	4,006	3,559
Deferred tax liabilities	3,316	3,424
Long-term debt	7,661	9,234
Other liabilities	1,740	1,720
Total liabilities	16,723	17,937
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580 shares authorized; 963 and 1,029 shares outstanding	2	2
Additional paid-in capital	15,571	15,293
Treasury stock at cost, 711 and 632 shares	(24,893	) (21,892 )
Retained earnings	15,699	13,929
Accumulated other comprehensive income	550	717
Total stockholders' equity	6,929	8,049
Total liabilities and stockholders' equity	\$ 23,652	\$ 25,986

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

**eBay Inc.****CONDENSED CONSOLIDATED STATEMENT OF INCOME**

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(In millions, except per share amounts) (Unaudited)			
Net revenues	\$2,649	\$2,498	\$7,869	\$7,220
Cost of net revenues	608	557	1,764	1,631
Gross profit	2,041	1,941	6,105	5,589
Operating expenses:				
Sales and marketing	852	719	2,446	2,094
Product development	307	316	993	907
General and administrative	248	254	886	766
Provision for transaction losses	65	68	203	193
Amortization of acquired intangible assets	13	10	36	28
Total operating expenses	1,485	1,367	4,564	3,988
Income from operations	556	574	1,541	1,601
Interest and other, net	392	120	661	113
Income before income taxes	948	694	2,202	1,714
Income tax provision	(228 )	(174 )	(437 )	(130 )
Income from continuing operations	720	520	1,765	1,584
Income from discontinued operations, net of income taxes	1	—	5	—
Net income	\$721	\$520	\$1,770	\$1,584
Income per share - basic:				
Continuing operations	\$0.74	\$0.49	\$1.78	\$1.48
Discontinued operations	—	—	—	—
Net income per share - basic	\$0.74	\$0.49	\$1.78	\$1.48
Income per share - diluted:				
Continuing operations	\$0.73	\$0.48	\$1.76	\$1.45
Discontinued operations	—	—	—	—
Net income per share - diluted	\$0.73	\$0.48	\$1.76	\$1.45
Weighted-average shares:				
Basic	974	1,062	992	1,074
Diluted	983	1,078	1,005	1,091

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

**eBay Inc.****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2017</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>(In millions) (Unaudited)</b>			
Net income	\$721	\$520	\$1,770	\$1,584
Other comprehensive income, net of reclassification adjustments:				
Foreign currency translation gain (loss)	(25 )	115	(218 )	791
Unrealized gains (losses) on investments, net	8	7	(30 )	(42 )
Tax benefit (expense) on unrealized gains (losses) on investments, net	(2 )	(2 )	8	16
Unrealized gains (losses) on hedging activities, net	(16 )	(24 )	92	(122 )
Tax benefit (expense) on unrealized gains (losses) on hedging activities, net	4	5	(19 )	19
Other comprehensive income/(loss), net of tax	(31 )	101	(167 )	662
Comprehensive income	\$690	\$621	\$1,603	\$2,246

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

**eBay Inc.****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Nine Months Ended September 30, 2018    2017 (In millions) (Unaudited)</b>	
Cash flows from operating activities:		
Net income	\$ 1,770	\$ 1,584
Income from discontinued operations, net of income taxes	(5 )	—
Adjustments:		
Provision for transaction losses	203	193
Depreciation and amortization	524	504
Stock-based compensation	396	356
Gain on sale of business	—	(167 )
Gain on investments, net	(572 )	(21 )
Deferred income taxes	81	(39 )
Change in fair value of warrant	(232 )	—
Changes in assets and liabilities, and other, net of acquisition effects	(738 )	(252 )
Net cash provided by continuing operating activities	1,427	2,158
Net cash used in discontinued operating activities	(2 )	—
Net cash provided by operating activities	1,425	2,158
Cash flows from investing activities:		
Purchases of property and equipment	(521 )	(474 )
Purchases of investments	(16,177)	(11,276)
Maturities and sales of investments	18,431	10,778
Equity investment in Flipkart	—	(514 )
Proceeds from sale of equity investment in Flipkart	1,029	—
Acquisitions, net of cash acquired	(302 )	(22 )
Other	13	1
Net cash provided by (used in) investing activities	2,473	(1,507 )
Cash flows from financing activities:		
Proceeds from issuance of common stock	70	74
Repurchases of common stock	(2,991 )	(1,824 )
Tax withholdings related to net share settlements of restricted stock units and awards	(189 )	(170 )
Proceeds from issuance of long-term debt, net	—	2,484
Repayment of debt	(750 )	(1,450 )
Other	(27 )	(2 )
Net cash used in financing activities	(3,887 )	(888 )
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(50 )	184
Net decrease in cash, cash equivalents and restricted cash	(39 )	(53 )
Cash, cash equivalents and restricted cash at beginning of period	2,140	1,835
Cash, cash equivalents and restricted cash at end of period	\$ 2,101	\$ 1,782
Supplemental cash flow disclosures:		
Cash paid for:		
Interest	\$ 268	\$ 241
Income taxes	\$ 569	\$ 193
Noncash investing activities:		
Relinquishment of equity method investment	\$ 266	\$ —

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Sale of business in exchange for ownership interest in Flipkart \$— \$211

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

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**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 — The Company and Summary of Significant Accounting Policies**

***The Company***

eBay Inc. is a global commerce leader, which includes our Marketplace, StubHub and Classifieds platforms. Our Marketplace platforms include our online marketplace located at [www.ebay.com](http://www.ebay.com), its localized counterparts and the eBay mobile apps. Our StubHub platforms include our online ticket platform located at [www.stubhub.com](http://www.stubhub.com), its localized counterparts and the StubHub mobile apps. Our Classifieds platforms include a collection of brands such as Mobile.de, Kijiji, Gumtree, Marktplaats, eBay Kleinanzeigen and others.

When we refer to “we,” “our,” “us” or “eBay” in this Quarterly Report on Form 10-Q, we mean the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of our consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to provisions for transaction losses, legal contingencies, income taxes, revenue recognition, stock-based compensation, investments, goodwill and the recoverability of intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

***Principles of Consolidation and Basis of Presentation***

The accompanying condensed financial statements are consolidated and include the financial statements of eBay Inc., our wholly and majority-owned subsidiaries and variable interest entities (“VIE”) where we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. Minority interests are recorded as a noncontrolling interest. A qualitative approach is applied to assess the consolidation requirement for VIEs. Investments in entities where we hold at least a 20% ownership interest and have the ability to exercise significant influence, but not control, over the investee are accounted for using the equity method of accounting. For such investments, our share of the investees’ results of operations is included in interest and other, net and our investment balance is included in long-term investments. Investments in entities where we hold less than a 20% ownership interest are generally accounted for as equity investments to be measured at fair value or, under an election, at cost if it does not have readily determinable fair value, in which case the carrying value would be adjusted upon the occurrence of an observable price change or impairment.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2017. We have evaluated all subsequent events through the date these condensed consolidated financial statements were issued. In the opinion of

management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for fair statement of the condensed consolidated financial position, results of operations and cash flows for these interim periods. Certain prior period amounts have been reclassified on our condensed consolidated financial statements to conform with current year presentation.

***Significant Accounting Policies***

Notwithstanding the changes to our *Investments, Derivatives Instruments* and *Revenue Recognition* policies, there were no significant changes to our significant accounting policies disclosed in “Note 1, *The Company and Summary of Significant Accounting Policies*” of our Annual Report on Form 10-K for the year ended December 31, 2017.



**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Investments***

Short-term investments, which may include marketable equity securities, time deposits, certificates of deposit, government bonds and corporate debt securities with original maturities of greater than three months but less than one year when purchased, are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses related to equity securities are recognized in interest & other, net, with all other unrealized gains and losses reported as a component of other comprehensive income (loss), net of related estimated income tax provisions or benefits.

Long-term investments may include marketable government bonds and corporate debt securities, time deposits, certificates of deposit and equity investments. Debt securities are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses on our available-for-sale debt securities are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated income tax provisions or benefits.

Our equity investments are primarily investments in privately-held companies. Our condensed consolidated results of operations include, as a component of interest and other, net, our share of the net income or loss of the equity investments accounted for under the equity method of accounting. Our share of investees' results of operations is not significant for any period presented. Equity investments without readily determinable fair values are accounted for at cost, less impairment and adjusted for subsequent observable price changes obtained from orderly transactions for identical or similar investments issued by the same investee. Such changes in the basis of the equity investment are recognized in interest & other, net.

We assess whether an other-than-temporary impairment loss on our investments has occurred due to declines in fair value or other market conditions. With respect to our debt securities, this assessment takes into account the severity and duration of the decline in value, our intent to sell the security, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, and whether we expect to recover the entire amortized cost basis of the security (that is, whether a credit loss exists).

***Derivative Instruments***

We use derivative financial instruments, primarily forwards, options and swaps, to hedge certain foreign currency and interest rate exposures. We may also use other derivative instruments not designated as hedges, such as forwards to hedge foreign currency balance sheet exposures. We do not use derivative financial instruments for trading purposes.

We also entered into a warrant agreement in addition to a commercial agreement with a service provider that, subject to meeting certain conditions, entitles us to acquire a fixed number of shares up to 5% of the service provider's fully diluted issued and outstanding share capital at a specific date. The warrant is accounted for as a derivative instrument under ASC Topic 815, *Derivatives and Hedging*.

See "Note 7 - Derivative Instruments" for a full description of our derivative instrument activities and related accounting policies.

***Revenue Recognition***

We generate net transaction revenues primarily from final value fees, including fees to promote listings, feature fees and listing fees from sellers in our Marketplace and final value fees from sellers and buyers on our StubHub platforms. We recognize revenue for the fees when the single performance obligation is satisfied at a point in time when transactions are successfully closed or payments are authorized to sellers on our Marketplace and StubHub platforms, respectively. We made the policy election to consider the delivery of tickets on our StubHub platform to be fulfillment activities and, consequently does not impact the timing of revenue recognition.

Our marketing services and other revenues are derived principally from the sale of advertisements, classifieds fees, and revenue sharing arrangements. Advertising revenue is derived principally from the sale of online advertisements which are based on “impressions” (i.e., the number of times that an advertisement appears in pages viewed by users of our platforms) or “clicks” (which are generated each time users on our platforms click through our advertisements to an advertiser’s designated website) delivered to advertisers. We use the output method and apply

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**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

the practical expedient to recognize advertising revenue in the amount to which we have a right to invoice. For contracts with target advertising commitments with rebates, estimated payout is accounted for as a variable consideration to the extent it is probable that a significant reversal of revenue will not occur. We generate net revenues related to fees for listing items on our Classifieds platforms, which are recognized over the estimated period of the classifieds listing and fees to feature the listing that are recognized over the feature period or a point in time depending on the nature of the feature purchased. Discounts offered through purchase of packages of multiple services are allocated based on the stand-alone selling price (“SSP”) of each respective feature. Revenues related to revenue sharing arrangements are recognized based on whether we are the principal in the arrangement and are responsible for fulfilling the promise to provide the specified services or whether we are an agent arranging for those services to be provided by our partners. If the former, we recognize revenue in the gross amount of consideration received from the customer whereas if the latter, we recognize revenue net of the consideration due to our partners. Revenue related to revenue sharing arrangements are primarily recognized at a point in time when services are provided to customers.

We provide incentives to our users in various forms including discounts on fees, discounts on items sold on the platforms, coupons and rewards. Incentives which are consideration payable to the customer that are not in exchange for a distinct good or service are generally recognized as a reduction of revenue at the later of when revenue is recognized or when we pay or promise to pay the incentive. Further, we provide credits in certain circumstances in which we refund certain fees to our customers. Credits are accounted for as variable consideration at contract inception when estimating the amount of revenue to be recognized when the performance obligation is satisfied to the extent that it is probable that a significant reversal of revenue will not occur and updated as additional information becomes available.

Our contracts with customers may include promises to transfer multiple services including discounts on future services. Determining whether services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Further, judgment is required to determine the SSP for each distinct performance obligation. In instances where SSP is not directly observable, we generally estimate selling prices based on when they are sold to customers of a similar nature and geography. These estimates are generally based on pricing strategies, market factors, strategic objectives and observable inputs.

***Contract Balances***

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenue recognized prior to invoicing when we have satisfied our performance obligation and have the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon our assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers’ ability to pay. The allowance for doubtful accounts and authorized credits was \$95 million and \$102 million as of September 30, 2018 and December 31, 2017, respectively. Deferred revenue consists of fees received related to unsatisfied performance obligations at the end of the period. Due to the generally short-term duration of contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized for the nine month period ended September 30, 2018 that was included in the deferred revenue balance at the beginning of the period was \$95 million.

***Recently Adopted Accounting Pronouncements***

In 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard replaces all current GAAP guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In 2016, the FASB issued several amendments to the standard, including principal versus agent considerations when another party is involved in providing goods or services to a customer and the application of identifying performance obligations. We adopted the standard effective January 1, 2018 using the full retrospective transition method and recast each prior reporting period presented. The cumulative adjustment to retained earnings as of January 1, 2016 was immaterial.

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Under the new standard, we identified one performance obligation related to the core service offered to sellers on our Marketplace platform and believe additional services, mainly to promote or feature listings at the option of sellers, are not distinct within the context of the contract. Accordingly, certain fees paid by sellers for these services will be recognized when the single performance obligation is satisfied or when the contract expires resulting, in some cases, in a change in the timing of recognition. In addition, we made the policy election to consider delivery of tickets in our StubHub business to be fulfillment activities and, consequently, the performance obligation is considered to be satisfied upon payment to sellers. The impact of this policy election will allow an acceleration of revenue recognition for certain users. The total impact resulting from the change in timing of recognition for both the Marketplace and StubHub platforms was an immaterial net change in transaction revenue for the three and nine months ended September 30, 2017, and an increase in deferred revenue of \$20 million as of December 31, 2017.

Further, certain incentives such as coupons and rewards provided to certain users from which we do not earn revenue within the context of the identified contract of \$92 million and \$268 million for the three and nine months ended September 30, 2017, respectively, are recognized as sales and marketing expenses, which historically were recorded as a reduction of revenue.

Adoption of this guidance impacted our previously reported results as follows (in millions, except per share data):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	As Reported	As Adjusted	As Reported	As Adjusted
Net revenues	\$2,409	\$2,498	\$6,954	\$7,220
Cost of net revenues	\$556	\$557	\$1,632	\$1,631
Sales and marketing	\$627	\$719	\$1,826	\$2,094
Net income	\$523	\$520	\$1,585	\$1,584
Net income per share - basic	\$0.49	\$0.49	\$1.48	\$1.48
Net income per share - diluted	\$0.48	\$0.48	\$1.45	\$1.45

In 2016, the FASB issued new guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. Further in 2018, the FASB issued certain clarifications related to the application of the new guidance. We anticipate that the adoption of the new standard will increase the volatility of our other income (expense), net, as a result of the remeasurement of equity investments. The Company adopted this guidance in the first quarter of 2018 with no material impact on our condensed consolidated financial statements at adoption.

***Recent Accounting Pronouncements Not Yet Adopted***

In 2016, the FASB issued new guidance related to accounting for leases. The new guidance requires the recognition of right-of-use (“ROU”) assets and lease liabilities by lessees for those leases classified as

operating leases under previous guidance. In 2018, the FASB also approved an amendment that would permit the option to adopt the new standard prospectively as of the effective date, without adjusting comparative periods presented. The new standard will be effective for us beginning January 1, 2019. We anticipate this new standard will have a material impact on our consolidated balance sheet. However, we do not expect adoption to have a material impact on our consolidated statement of income, stockholders' equity and cash flows. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact will be from recognition of ROU assets and lease liabilities related to our office space and data center operating leases. In preparation for the adoption of the new standard, we are in process of implementing internal controls and a new lease accounting information system to enable the preparation of financial information. We expect to elect the optional transition approach to not apply the new lease standard in the comparative periods presented, the package of practical expedients and the use of hindsight in determining the lease term.

**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In 2016, the FASB issued new guidance that requires credit losses on financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, not based on incurred losses. Further, credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited to the amount by which fair value is below amortized cost. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 is permitted. We are evaluating the impact of adopting this new accounting guidance on our condensed consolidated financial statements.

In 2017, the FASB issued new guidance to simplify the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, any goodwill impairment will equal the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Further, the guidance eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. This standard is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019, with early adoption permitted for impairment tests performed after January 1, 2017. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In 2017, the FASB issued new guidance that will shorten the amortization period for certain callable debt securities held at a premium to the earliest call date to more closely align with expectations incorporated in market pricing. The new guidance will not impact debt securities held at a discount. Adoption of this standard will be made on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In 2018, the FASB issued new guidance that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, eliminating the stranded tax effects resulting from the Tax Cuts and Jobs Act. However, the new guidance only applies to the tax effects resulting from the Tax Cuts and Jobs Act and does not change the underlying guidance to recognize the effect of a change in tax laws or rates in income from continuing operations. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We are evaluating the impact of adopting this new accounting guidance on our condensed consolidated financial statements.

In 2018, the FASB issued new guidance to simplify the accounting for nonemployee share-based payment transactions by expanding the scope of ASC Topic 718, *Compensation - Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new standard, most of the guidance on stock compensation payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In 2018, the FASB issued new guidance on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor (i.e., a service contract). Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. This standard will be effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those fiscal years, with early adoption permitted. While we continue to assess the potential impact of this standard, we do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.



## eBay Inc.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 2 — Net Income Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and equity incentive awards is reflected in diluted net income (loss) per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive common shares. The following table sets forth the computation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2018 and 2017 (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Income from continuing operations	\$720	\$520	\$1,765	\$1,584
Income from discontinued operations, net of income taxes	1	—	5	—
Net income	\$721	\$520	\$1,770	\$1,584
Denominator:				
Weighted average shares of common stock - basic	974	1,062	992	1,074
Dilutive effect of equity incentive awards	9	16	13	17
Weighted average shares of common stock - diluted	983	1,078	1,005	1,091
Income per share - basic:				
Continuing operations	\$0.74	\$0.49	\$1.78	\$1.48
Discontinued operations	—	—	—	—
Net income per share - basic	\$0.74	\$0.49	\$1.78	\$1.48
Income per share - diluted:				
Continuing operations	\$0.73	\$0.48	\$1.76	\$1.45
Discontinued operations	—	—	—	—
Net income per share - diluted	\$0.73	\$0.48	\$1.76	\$1.45
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	15	1	12	2

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****Note 3 – Business Combinations***Business Combinations*

In May 2018, we completed the acquisition of 100% of Giosis Pte. Ltd.'s ("Giosis") Japan business, including the Qoo10.jp platform, in exchange for \$306 million in cash and the relinquishment of our existing equity method investment in Giosis. We believe the acquisition will allow us to offer Japanese consumers more inventory and grow our international presence. Refer to "Note 6 - Investments" for further details on the relinquishment of our equity method investment in Giosis' non-Japanese business.

The aggregate purchase consideration was allocated as follows (in millions):

	<b>Giosis</b>
Goodwill	\$ 532
Purchased intangible assets	91
Net liabilities	(50 )
Total	\$ 573

These allocations were prepared on a preliminary basis and changes to these allocations may occur as additional information becomes available. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Giosis. We generally do not expect goodwill to be deductible for income tax purposes.

Our condensed consolidated financial statements include the operating results of Giosis from the date of acquisition. Separate operating results and pro forma results of operations for this acquisition have not been presented as the effect of the acquisition is not material to our financial results.

**Note 4 — Goodwill and Intangible Assets*****Goodwill***

The following table presents goodwill activities during the nine months ended September 30, 2018 (in millions):

	December 31, 2017	Goodwill Acquired	Adjustments	September 30, 2018
Goodwill	\$ 4,773	\$ 532	\$ (135 )	\$ 5,170

The adjustments to goodwill during the nine months ended September 30, 2018 were primarily due to foreign currency translation.

***Intangible Assets***

The components of identifiable intangible assets as of September 30, 2018 and December 31, 2017 are as follows (in millions, except years):

September 30, 2018				December 31, 2017			
Gross Carrying	Accumulated Amortization	Net Carrying	Weighted Average Useful Life (Years)	Gross Carrying	Accumulated Amortization	Net Carrying	Weighted Average Useful Life (Years)

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	Amount		Amount		Amount		Amount	
Intangible assets:								
Customer lists and user base	\$522	\$ (441)	)	\$ 81	5	\$458	\$ (430)	) \$ 28 5
Marketing related	588	(579)	)	9	5	607	(587)	) 20 5
Developed technologies	279	(268)	)	11	3	273	(258)	) 15 3
All other	160	(155)	)	5	4	156	(150)	) 6 4
Total	\$1,549	\$ (1,443)	)	\$ 106		\$1,494	\$ (1,425)	) \$ 69

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Amortization expense for intangible assets was \$15 million and \$16 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense for intangible assets was \$49 million and \$48 million for the nine months ended September 30, 2018 and 2017, respectively.

Expected future intangible asset amortization as of September 30, 2018 is as follows (in millions):

Fiscal year:

Remaining 2018	\$ 14
2019	49
2020	34
2021	9
Total	\$ 106

**Note 5 — Segments**

We have one operating and reportable segment. Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The following table sets forth the breakdown of net revenues by type for the three and nine months ended September 30, 2018 and 2017 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net transaction revenues:				
Marketplace	\$ 1,803	\$ 1,698	\$ 5,432	\$ 4,986
StubHub	286	270	757	705
Total net transaction revenues	2,089	1,968	6,189	5,691
Marketing services and other revenues:				
Marketplace	301	293	909	859
Classifieds	254	235	759	653
StubHub, Corporate and other	5	2	12	17
Total marketing services and other revenues	560	530	1,680	1,529
Total net revenues	\$ 2,649	\$ 2,498	\$ 7,869	\$ 7,220

The following table summarizes the allocation of net revenues based on geography for the three and nine months ended September 30, 2018 and 2017 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenues by geography:				
U.S.	\$ 1,084	\$ 1,047	\$ 3,213	\$ 3,042
Germany	381	370	1,180	1,054
United Kingdom	363	344	1,088	984
South Korea	290	272	877	786
Rest of world	531	465	1,511	1,354
Total net revenues	\$ 2,649	\$ 2,498	\$ 7,869	\$ 7,220

Net revenues, inclusive of the effects of foreign exchange during each period, are attributed to U.S. and international geographies primarily based upon the country in which the seller, platform that displays advertising, other service provider or customer, as the case may be, is located.

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****Note 6 — Investments**

The following tables summarize the unrealized gains and losses and estimated fair value of our investments classified as available-for-sale as of September 30, 2018 and December 31, 2017 (in millions):

	<b>September 30, 2018</b>			
	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Short-term investments:				
Restricted cash	\$ 15	\$ —	\$ —	\$ 15
Corporate debt securities	2,702	1	(7 )	2,696
Government and agency securities	41	—	—	41
	<b>\$ 2,758</b>	<b>\$ 1</b>	<b>\$ (7 )</b>	<b>\$ 2,752</b>
Long-term investments:				
Corporate debt securities	4,171	7	(46 )	4,132
	<b>\$ 4,171</b>	<b>\$ 7</b>	<b>\$ (46 )</b>	<b>\$ 4,132</b>

	<b>December 31, 2017</b>			
	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Short-term investments:				
Restricted cash	\$ 20	\$ —	\$ —	\$ 20
Corporate debt securities	3,726	1	(4 )	3,723
	<b>\$ 3,746</b>	<b>\$ 1</b>	<b>\$ (4 )</b>	<b>\$ 3,743</b>
Long-term investments:				
Corporate debt securities	5,458	12	(24 )	5,446
	<b>\$ 5,458</b>	<b>\$ 12</b>	<b>\$ (24 )</b>	<b>\$ 5,446</b>

Investment securities in a continuous loss position for greater than 12 months had an estimated fair value of \$696 million and \$14 million of unrealized losses as of September 30, 2018 and an estimated fair value of \$360 million and an immaterial amount of unrealized losses as of December 31, 2017. Refer to “Note 14 - Accumulated Other Comprehensive Income” for amounts reclassified to earnings from unrealized gains and losses.

The estimated fair values of our short-term and long-term investments classified as available-for-sale by date of contractual maturity as of September 30, 2018 are as follows (in millions):

	<b>September 30, 2018</b>
One year or less (including restricted cash of \$15)	\$ 2,752
One year through two years	1,973
Two years through three years	1,451
Three years through four years	591
Four years through five years	117
	<b>\$ 6,884</b>



**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*****Equity investments***

Our equity investments are reported in long-term investments on our condensed consolidated balance sheet. The following table provides a summary of our equity investments as of September 30, 2018 and December 31, 2017 (in millions):

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Equity investments without readily determinable fair values	\$ 138	\$ 872
Equity investments under the equity method of accounting	6	13
Total equity investments	\$ 144	\$ 885

During the third quarter of 2018, we sold our investment in Flipkart. The \$313 million gain upon sale of the investment was recorded in interest and other, net on our condensed consolidated statement of income. During the second quarter of 2018, we relinquished our existing equity method investment in Giosis as part of the exchange for the acquisition of Giosis' Japan business. The \$266 million gain upon relinquishment was recorded in interest and other, net on our condensed consolidated statement of income. Refer to "Note 3 - Business Combinations" for further details on the acquisition.

The following table provides a summary of unrealized gains and losses recorded in interest and other, net during the three and nine months ended September 30, 2018 related to equity investments without readily determinable fair values still held at September 30, 2018.

	<b>Three Months Ended September 30, 2018</b>	<b>Nine Months Ended September 30, 2018</b>
Net gains/(losses) recognized during the period on equity investments	\$ 313	\$ 313
Less: Net gains/(losses) recognized during the period on equity investments sold during the period	(313 )	(313 )
Total unrealized gains/(losses) on equity investments still held at September 30, 2018	\$ —	\$ —

The following table summarizes the total carrying value of equity investments without readily determinable fair values during the three and nine months ended September 30, 2018 (in millions):

	<b>Three Months Ended September 30, 2018</b>	<b>Nine Months Ended September 30, 2018</b>
Carrying value, beginning of period	\$ 859	\$ 872
Additions	—	23
Sales	(718 )	(718 )
Downward adjustments for observable price changes and impairment	—	(20 )
Foreign currency translation and other	(3 )	(19 )
Carrying value, end of period	\$ 138	\$ 138



For such equity investments without readily determinable fair values as of September 30, 2018, cumulative downward adjustments for price changes and impairment was \$81 million. As of September 30, 2018, there have been no upward adjustments for price changes to our equity investments without readily determinable fair values.

**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 7 — Derivative Instruments**

Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates and interest rates. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse foreign exchange rate and interest rate movements. We do not use any of our derivative instruments for trading purposes.

We use foreign currency exchange contracts to reduce the volatility of cash flows related to forecasted revenues, expenses, assets and liabilities, including intercompany balances denominated in foreign currencies. These contracts are generally one month to one year in duration but with maturities up to 18 months. The objective of the foreign exchange contracts is to better ensure that ultimately the U.S. dollar-equivalent cash flows are not adversely affected by changes in the applicable U.S. dollar/foreign currency exchange rate. We evaluate the effectiveness of our foreign exchange contracts designated as cash flow or net investment hedges on a quarterly basis.

We use interest rate swaps to manage interest rate risk on our fixed rate notes issued in July 2014 and maturing in 2019, 2021 and 2024. These interest rate swaps had the economic effect of modifying the fixed interest obligations associated with \$2.4 billion of these notes so that the interest payable on these senior notes effectively became variable based on London InterBank Offered Rate (“LIBOR”) plus a spread. The duration of these interest rate contracts matches the duration of the fixed rate notes due 2019, 2021 and 2024.

***Cash Flow Hedges***

For derivative instruments that are designated as cash flow hedges, the derivative’s gain or loss is initially reported as a component of accumulated other comprehensive income (“AOCI”) and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Unrealized gains and losses in AOCI associated with such derivative instruments are immediately reclassified into earnings. As of September 30, 2018, we have estimated that approximately \$33 million of net derivative gain related to our cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

***Net Investment Hedges***

For derivative instruments that are designated as net investment hedges, the derivative’s gain or loss is initially reported in the translation adjustments component of AOCI and is reclassified to net earnings in the period in which the hedged subsidiary is either sold or substantially liquidated.

***Fair Value Hedges***

We have designated the interest rate swaps used to manage interest rate risk on our fixed rate notes issued in July 2014 and maturing in 2019, 2021 and 2024 as qualifying hedging instruments and are accounting for them as fair value hedges. These transactions are designated as fair value hedges for financial accounting purposes because they protect us against changes in the fair value of certain of our fixed rate borrowings due to benchmark interest rate movements. Changes in the fair values of these

interest rate swap agreements are recognized in other assets or other liabilities with a corresponding increase or decrease in long-term debt. Each quarter we pay interest based on LIBOR plus a spread to the counterparty and on a semi-annual basis receive interest from the counterparty per the fixed rate of these senior notes. The net amount is recognized as interest expense in interest and other, net.

***Non-Designated Hedges***

Our derivatives not designated as hedging instruments consist of foreign currency forward contracts that we primarily use to hedge monetary assets or liabilities, including intercompany balances denominated in non-functional currencies. The gains and losses on our derivatives not designated as hedging instruments are recorded in interest and other, net, which are offset by the foreign currency gains and losses on the related assets and liabilities that are also recorded in interest and other, net.

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****Warrant**

We entered into a warrant agreement in addition to a commercial agreement with a service provider that, subject to meeting certain conditions, entitles us to acquire a fixed number of shares up to 5% of the service providers fully diluted issued and outstanding share capital at a specific date. The warrant has a term of seven years and will vest in a series of four tranches, at a specified price per share upon meeting significant processing volume milestone targets on a calendar year basis. If and when the relevant milestone is reached, the warrant becomes exercisable with respect to the corresponding tranche of warrant shares up until the warrant expiration date of January 31, 2025. The maximum number of tranches that can vest in one calendar year is two.

The warrant is accounted for as a derivative under ASC Topic 815, *Derivatives and Hedging*. We report the warrant at fair value within other assets in our condensed consolidated balance sheets and changes in the fair value of the warrant are recognized in interest and other, net in our condensed consolidated statement of income. The day-one value attributable to the warrant, which was recorded as a deferred credit, is reported within other liabilities in our condensed consolidated balance sheets and will be amortized over the life of the commercial arrangement.

**Fair Value of Derivative Contracts**

The fair values of our outstanding derivative instruments as of September 30, 2018 and December 31, 2017 were as follows (in millions):

	Balance Sheet Location	September 30, 2018	December 31, 2017
<b>Derivative Assets:</b>			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	\$ 62	\$ 16
Foreign exchange contracts designated as net investment hedges	Other Current Assets	9	—
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	14	10
Warrant	Other Assets	276	—
Foreign exchange contracts designated as cash flow hedges	Other Assets	2	—
Interest rate contracts designated as fair value hedges	Other Assets	—	2
Total derivative assets		\$ 363	\$ 28
<b>Derivative Liabilities:</b>			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	\$ —	\$ 18
Foreign exchange contracts designated as net investment hedges	Other Current Liabilities	2	—
Interest rate contracts designated as fair value hedges	Other Current Liabilities	9	—
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	12	11
Interest rate contracts designated as fair value hedges	Other Liabilities	32	—
Total derivative liabilities		\$ 55	\$ 29
Total fair value of derivative instruments		\$ 308	\$ (1 )

Under the master netting agreements with the respective counterparties to our derivative contracts, subject to applicable requirements, we are allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, we have elected to present the derivative assets and derivative liabilities on a gross basis on our condensed consolidated balance sheet. As of September 30,

2018, the potential effect of rights of set-off associated with the foreign exchange contracts would be an offset to both assets and liabilities by \$14 million, resulting in net derivative assets of \$73 million and net derivative liabilities of zero.

## eBay Inc.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Effect of Derivative Contracts on Accumulated Other Comprehensive Income**

The following tables present the activity of derivative instruments designated as cash flow hedges as of September 30, 2018 and December 31, 2017, and the impact of these derivative contracts on AOCI for the nine months ended September 30, 2018 and 2017 (in millions):

	December 31, 2017	Amount of Gain (Loss) Recognized in Other Comprehensive Income	Amount of Gain (Loss) Reclassified From AOCI to Earnings	September 30, 2018
Foreign exchange contracts designated as cash flow hedges	\$ (57 )	\$ 54	\$ (37 )	\$ 34

	December 31, 2016	Amount of Gain (Loss) Recognized in Other Comprehensive Income	Amount of Gain (Loss) Reclassified From AOCI to Earnings	September 30, 2017
Foreign exchange contracts designated as cash flow hedges	\$ 54	\$ (94 )	\$ 28	\$ (68 )

**Effect of Derivative Contracts on Condensed Consolidated Statement of Income**

The following table provides a summary of the total gain (loss) recognized in the condensed consolidated statement of income from our foreign exchange derivative contracts by location (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	\$12	\$(7 )	\$(37)	\$(7 )
Foreign exchange contracts designated as cash flow hedges recognized in cost of net revenues and operating expenses	—	—	—	11
Foreign exchange contracts designated as cash flow hedges recognized in interest and other, net	—	—	—	24
Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net	2	(6 )	4	(14 )
Total gain (loss) recognized from foreign exchange derivative contracts in the condensed consolidated statement of income	\$14	\$(13)	\$(33)	\$14

The following table provides a summary of the total gain (loss) recognized in the condensed consolidated statement of income from our interest rate derivative contracts by location (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Gain (loss) from interest rate contracts designated as fair value hedges recognized in interest and other, net	\$(4)	\$(5)	\$(43)	\$(4)
Gain (loss) from hedged items attributable to hedged risk recognized in interest and other, net	4	5	43	4
Total gain (loss) recognized from interest rate derivative contracts in the condensed consolidated statement of income	\$—	\$—	\$—	\$—



**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table provides a summary of the total gain recognized in the condensed consolidated statement of income due to changes in the fair value of the warrant (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gain attributable to changes in the fair value of warrant recognized in interest and other, net	\$ 126	\$	-\$ 232	\$ —

***Notional Amounts of Derivative Contracts***

Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged, but is used only as the basis on which the value of foreign exchange payments under these contracts are determined. The following table provides the notional amounts of our outstanding derivatives as of September 30, 2018 and December 31, 2017 (in millions):

	September 30, 2018	December 31, 2017
Foreign exchange contracts designated as cash flow hedges	\$ 1,857	\$ 1,990
Foreign exchange contracts designated as net investment hedges	1,002	—
Foreign exchange contracts not designated as hedging instruments	2,851	2,349
Interest rate contracts designated as fair value hedges	2,400	2,400
Total	\$ 8,110	\$ 6,739

***Credit Risk***

Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. We seek to mitigate such risk by limiting our counterparties to, and by spreading the risk across, major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. To further limit credit risk, we also enter into collateral security arrangements related to certain interest rate derivative instruments whereby collateral is posted between counterparties if the fair value of the derivative instrument exceeds certain thresholds. Additional collateral would be required in the event of a significant credit downgrade by either party. We are not required to pledge, nor are we entitled to receive, collateral related to our foreign exchange derivative transactions. As of September 30, 2018, we had neither pledged nor received collateral related to our interest rate derivative transactions.



## eBay Inc.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 8 — Fair Value Measurement of Assets and Liabilities

The following tables present our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in millions):

	September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 2,086	\$ 2,051	\$ 35	\$ —
Short-term investments:				
Restricted cash	15	15	—	—
Corporate debt securities	2,696	—	2,696	—
Government and agency securities	41	—	41	—
Total short-term investments	2,752	15	2,737	—
Derivatives	363	—	87	276
Long-term investments:				
Corporate debt securities	4,132	—	4,132	—
Total long-term investments	4,132	—	4,132	—
Total financial assets	\$ 9,333	\$ 2,066	\$ 6,991	\$ 276

## Liabilities:

Derivatives	\$ 55	\$ —	\$ 55	\$ —
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	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents	\$ 2,120	\$ 2,120	\$ —
Short-term investments:			
Restricted cash	20	20	—
Corporate debt securities	3,723	—	3,723
Total short-term investments	3,743	20	3,723
Derivatives	28	—	28
Long-term investments:			
Corporate debt securities	5,446	—	5,446
Total long-term investments	5,446	—	5,446
Total financial assets	\$ 11,337	\$ 2,140	\$ 9,197

## Liabilities:

Derivatives	\$ 29	\$ —	\$ 29
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Our financial assets and liabilities are valued using market prices on both active markets (Level 1), less active markets (Level 2) and little or no market activity (Level 3). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs. Level 3 instrument

valuations typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. We did not have any transfers of financial instruments between valuation levels during the nine months ended September 30, 2018.

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The majority of our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as equity prices, interest rate yield curves, option volatility and currency rates. Our warrant, which is accounted for as a derivative instrument, is valued using a Black-Scholes model. Key assumptions used in the valuation include risk-free interest rates; the service provider's common stock price, equity volatility and common stock outstanding; exercise price; and details specific to the warrant. The value is also probability adjusted for management assumptions with respect to meeting the processing volume milestone targets. Refer to "Note 7 - Derivative Instruments" for further details on our derivative instruments.

Other financial instruments, including accounts receivable and accounts payable, are carried at cost, which approximates their fair value because of the short-term nature of these instruments.

The following table presents a reconciliation of the opening to closing balance of assets measured using significant unobservable inputs (Level 3) as of September 30, 2018 (in millions):

	<b>September 30, 2018</b>
Opening balance as of January 1, 2018	\$ —
Recognition of warrant	44
Change in fair value	232
Closing balance as of September 30, 2018	\$ 276

**eBay Inc.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 9 — Debt**

The following table summarizes the carrying value of our outstanding debt (in millions, except percentages):

	<b>Coupon Rate</b>	<b>As of September 30, 2018</b>	<b>Effective Interest Rate</b>	<b>As of December 31, 2017</b>	<b>Effective Interest Rate</b>
<b>Long-Term Debt</b>					
Floating Rate Notes:					
Senior notes due 2019	LIBOR plus 0.48%	\$ 400	2.925 %	\$ 400	1.955 %
Senior notes due 2023	LIBOR plus 0.87%	400	3.317 %	400	2.349 %
Fixed Rate Notes:					
Senior notes due 2018	2.500%	—		750	2.775 %
Senior notes due 2019	2.200%	1,150	2.346 %	1,150	2.346 %
Senior notes due 2020	3.250%	500	3.389 %	500	3.389 %
Senior notes due 2020	2.150%	500	2.344 %	500	2.344 %
Senior notes due 2021	2.875%	750	2.993 %	750	2.993 %
Senior notes due 2022	3.800%	750	3.989 %	750	3.989 %
Senior notes due 2022	2.600%	1,000	2.678 %	1,000	2.678 %
Senior notes due 2023	2.750%	750	2.866 %	750	2.866 %
Senior notes due 2024	3.450%	750	3.531 %	750	3.531 %
Senior notes due 2027	3.600%	850	3.689 %	850	3.689 %
Senior notes due 2042	4.000%	750	4.114 %	750	4.114 %
Senior notes due 2056	6.000%	750	6.547 %	750	6.547 %
Total senior notes		9,300		10,050	
Hedge accounting fair value adjustments		(32 )		2	
Unamortized discount and debt issuance costs		(57 )		(68 )	
Less: Current portion of long-term debt		(1,550 )		(750 )	
Total long-term debt		7,661		9,234	
<b>Short-Term Debt</b>					
Current portion of long-term debt		1,550		750	
Hedge accounting fair value adjustments		(9 )		—	
Unamortized discount and debt issuance costs		(2 )		—	
Other indebtedness		7		31	
Total short-term debt		1,546		781	
<b>Total Debt</b>		<b>\$ 9,207</b>		<b>\$ 10,015</b>	

**Senior Notes**

During the nine months ended September 30, 2018, \$750 million of 2.500% fixed rate notes due 2018 matured and were repaid.

None of the floating rate notes are redeemable prior to maturity. On and after March 1, 2021, we may redeem some or all of the 6.000% fixed rate notes due 2056 at any time and from time to time prior to their

maturity at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest. We may redeem some or all of the other fixed rate notes of each series at any time and from time to time prior to their maturity, generally at a make-whole redemption price, plus accrued and unpaid interest.

**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

If a change of control triggering event occurs with respect to the 2.150% fixed rate notes due 2020, the 3.800% fixed rate notes due 2022, the floating rate notes due 2023, the 2.750% fixed rate notes due 2023, the 3.600% fixed rate notes due 2027 or the 6.000% fixed rate notes due 2056, we must, subject to certain exceptions, offer to repurchase all of the notes of the applicable series at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

The indenture pursuant to which the senior notes were issued includes customary covenants that, among other things and subject to exceptions, limit our ability to incur, assume or guarantee debt secured by liens on specified assets or enter into sale and lease-back transactions with respect to specified properties, and also includes customary events of default.

To help achieve our interest rate risk management objectives, in connection with the previous issuance of certain senior notes, we entered into interest rate swap agreements that effectively converted \$2.4 billion of our fixed rate notes to floating rate debt based on LIBOR plus a spread. These swaps were designated as fair value hedges against changes in the fair value of certain fixed rate senior notes resulting from changes in interest rates. The gains and losses related to changes in the fair value of interest rate swaps substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to changes in market interest rates.

The effective interest rates for our senior notes include the interest payable, the amortization of debt issuance costs and the amortization of any original issue discount on these senior notes. Interest on these senior notes is payable either quarterly or semiannually. Interest expense associated with these senior notes, including amortization of debt issuance costs, was approximately \$79 million and \$83 million during the three months ended September 30, 2018 and 2017, respectively, and \$239 million and \$225 million during the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018 and December 31, 2017, the estimated fair value of these senior notes, using Level 2 inputs, was approximately \$9.1 billion and \$10.1 billion, respectively.

***Commercial Paper***

We have a commercial paper program pursuant to which we may issue commercial paper notes in an aggregate principal amount at maturity of up to \$1.5 billion outstanding at any time with maturities of up to 397 days from the date of issue. As of September 30, 2018, there were no commercial paper notes outstanding.

***Credit Agreement***

As of September 30, 2018, no borrowings were outstanding under our \$2 billion credit agreement. However, as described above, we have an up to \$1.5 billion commercial paper program and therefore maintain \$1.5 billion of available borrowing capacity under our credit agreement in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they become due. As a result, \$500 million of borrowing capacity was available as of September 30, 2018 for other purposes permitted by the credit agreement. The credit agreement includes customary representations, warranties, affirmative and negative covenants, including financial covenants, events of default and indemnification provisions in favor of the banks. The negative covenants include restrictions regarding the incurrence of liens and subsidiary indebtedness, in each case, subject to certain exceptions.

The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio. The events of default include the occurrence of a change of control (as defined in the credit agreement) with respect to us.

We were in compliance with all covenants in our outstanding debt instruments during the nine months ended September 30, 2018.

eBay Inc.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 10 — Commitments and Contingencies**

***Off-Balance Sheet Arrangements***

As of September 30, 2018, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

We have a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals from the financial institution based upon our aggregate operating cash balances held within the same financial institution (“Aggregate Cash Deposits”). This arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income under the arrangement. As of September 30, 2018, we had a total of \$1.7 billion in cash withdrawals partially offsetting our \$1.9 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

***Litigation and Other Legal Matters***

**Overview**

We are involved in legal and regulatory proceedings on an ongoing basis. Many of these proceedings are in early stages and may seek an indeterminate amount of damages. If we believe that a loss arising from such matters is probable and can be reasonably estimated, we accrue the estimated liability in our financial statements. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range. For those proceedings in which an unfavorable outcome is reasonably possible but not probable, we have disclosed an estimate of the reasonably possible loss or range of losses or we have concluded that an estimate of the reasonably possible loss or range arising directly from the proceeding (i.e., monetary damages or amounts paid in judgment or settlement) is not material. If we cannot estimate the probable or reasonably possible loss or range of losses arising from a proceeding, we have disclosed that fact. In assessing the materiality of a proceeding, we evaluate, among other factors, the amount of monetary damages claimed, as well as the potential impact of non-monetary remedies sought by plaintiffs (e.g., injunctive relief) that may require us to change our business practices in a manner that could have a material adverse impact on our business. With respect to the matters disclosed in this Note 10, we are unable to estimate the possible loss or range of losses that could potentially result from the application of such non-monetary remedies.

Amounts accrued for legal and regulatory proceedings for which we believe a loss is probable were not material for the nine months ended September 30, 2018. Except as otherwise noted for the proceedings described in this Note 10, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management’s expectations, the impact on our operating results or financial condition for that reporting period could be material.

**General Matters**



Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to patent disputes, and expect that we will increasingly be subject to additional patent infringement claims involving various aspects of our business as our products and services continue to expand in scope and complexity. Such claims may be brought directly or indirectly against our companies and/or against our customers (who may be entitled to contractual indemnification under their contracts with us), and we are subject to increased exposure to such claims as a result of our acquisitions and divestitures and in cases where we are entering new lines of business. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are interpreted by the courts, and as we expand the scope of our business (both in terms of the range of products and services that we offer and our geographical operations) and become subject to

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**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries like ourselves are either unclear or less favorable. We believe that additional lawsuits alleging that we have violated patent, copyright or trademark laws will be filed against us. Intellectual property claims, whether meritorious or not, are time consuming and costly to defend and resolve, could require expensive changes in our methods of doing business or could require us to enter into costly royalty or licensing agreements on unfavorable terms.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business, including suits by our users (individually or as class actions) alleging, among other things, improper disclosure of our prices, rules or policies, that our practices, prices, rules, policies or customer/user agreements violate applicable law or that we have acted unfairly and/or not acted in conformity with such practices, prices, rules, policies or agreements. Further, the number and significance of these disputes and inquiries are increasing as the political and regulatory landscape changes and, as we have grown larger, our businesses have expanded in scope (both in terms of the range of products and services that we offer and our geographical operations) and our products and services have increased in complexity. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards (including statutory damages for certain causes of action in certain jurisdictions), injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.

***Indemnification Provisions***

We entered into a separation and distribution agreement and various other agreements with PayPal to govern the separation and relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us and PayPal, which may be significant. In addition, the indemnity rights we have against PayPal under the agreements may not be sufficient to protect us and our indemnity obligations to PayPal may be significant.

In addition, we have entered into indemnification agreements with each of our directors, executive officers and certain other officers. These agreements require us to indemnify such individuals, to the fullest extent permitted by Delaware law, for certain liabilities to which they may become subject as a result of their affiliation with us.

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain cases, we have agreed to provide indemnification for intellectual property infringement. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in our condensed consolidated statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

**Note 11 — Stockholders' Equity**

***Stock Repurchase Program***

Our stock repurchase programs are intended to programmatically offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic and programmatic repurchases of our common stock to reduce our outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives. Our stock repurchase programs may be limited or terminated at any time without prior notice. The timing and actual number of shares repurchased will depend on a variety of factors, including corporate and regulatory requirements, price and other market conditions and management's determination as to the appropriate use of our cash.

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In July 2017, our Board authorized a \$3.0 billion stock repurchase program and in January 2018, our Board authorized an additional \$6.0 billion stock repurchase program. These stock repurchase programs have no expiration from the date of authorization. The stock repurchase activity under our stock repurchase programs during the nine months ended September 30, 2018 is summarized as follows (in millions, except per share amounts):

	Shares Repurchased (1)	Average Price per Share (2)	Value of Shares Repurchased	Remaining Amount Authorized
Balance as of January 1, 2018				\$ 1,651
Authorization of additional plan in January 2018				6,000
Repurchase of shares of common stock	79	\$ 37.82	\$ 3,000	(3,000 )
Balance as of September 30, 2018				\$ 4,651

(1) These repurchased shares of common stock were recorded as treasury stock and were accounted for under the cost method. None of the repurchased shares of common stock have been retired.

(2) Excludes broker commissions.

**Note 12 — Employee Benefit Plans*****Restricted Stock Unit Activity***

The following table presents restricted stock unit (“RSU”) activity (including performance-based RSUs that have been earned) under our equity incentive plans as of and for the nine months ended September 30, 2018 (in millions):

	Units
Outstanding as of January 1, 2018	42
Awarded	18
Vested	(15 )
Forfeited	(7 )
Outstanding as of September 30, 2018	38

The weighted average grant date fair value for RSUs awarded during the nine months ended September 30, 2018 was \$39.92 per share.

***Stock-Based Compensation Expense***

The impact on our results of operations of recording stock-based compensation expense for the three and nine months ended September 30, 2018 and 2017 was as follows (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Cost of net revenues	\$ 14	\$ 14	\$ 43	\$ 40
Sales and marketing	26	19	82	68

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Product development	45	45	148	131
General and administrative	40	40	123	117
Total stock-based compensation expense	\$125	\$118	\$396	\$356
Capitalized in product development	\$3	\$4	\$10	\$10

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**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 13 — Income Taxes**

We are subject to both direct and indirect taxation in the U.S. and various states and foreign jurisdictions. We are under examination by certain tax authorities for the 2008 to 2016 tax years. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these or other examinations. The material jurisdictions where we are subject to potential examination by tax authorities for tax years after 2007 include, among others, the U.S. (Federal and California), Germany, Korea, Israel, Switzerland, United Kingdom and Canada.

Although the timing of the resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

As a result of the realignment of our legal structure in 2016 and 2017, we no longer benefit from tax rulings previously concluded in several different jurisdictions. Without the benefit of the rulings, the noncash tax impacts of the realignment in our foreign eBay and Classifieds platforms have increased our income tax rate in certain foreign jurisdictions, most significantly Switzerland. The higher rate results from eBay being subject to a higher enacted tax rate for the foreseeable future.

While our tax rate is higher, the realignment allows us to achieve certain foreign cash tax benefits due to the step-up in tax basis achieved in certain foreign jurisdictions. We expect these cash tax benefits to remain consistent, subject to the performance of our foreign platforms, for a period in excess of 10 years. The realignment is expected to be substantially complete by the end of 2018 and primarily impact our international entities. However, U.S. tax reform and the new U.S. minimum tax on foreign earnings will reduce our expected consolidated cash tax benefits.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act” or “U.S. tax reform”) was enacted. U.S. tax reform, among other things, reduces the U.S. federal income tax rate from 35% to 21% in 2018, institutes a dividends received deduction for foreign earnings with a related tax for the deemed repatriation of unremitted foreign earnings and creates a new U.S. minimum tax on earnings of foreign subsidiaries. We recognized a provisional income tax charge of \$3.1 billion in the fourth quarter of 2017, which was included as a component of the income tax provision on our condensed consolidated statement of income.

We computed the amount based on information available to us, including our expectation that existing foreign basis differences will affect the amount of U.S. minimum tax upon reversal; however, there is still uncertainty as to the application of the Act. As of September 30, 2018, we have not yet completed our analysis of the components of the tax computation, including a complete reconciliation of the book and tax bases in our foreign subsidiaries. As we complete our analysis of U.S. tax reform, we may make adjustments to the provisional amounts, which may materially impact our provision for income taxes from continuing operations in the period in which the adjustments are made. We expect to complete our analysis by the fourth quarter of 2018. During the third quarter of 2018, we recorded an immaterial increase to the provisional amount recorded in the fourth quarter of 2017.

On October 11, 2018, we received a favorable tax ruling in connection with the ongoing realignment of our legal structure. The ruling will result in a reduction of the provisional amounts recorded in the fourth quarter

of 2017 as a result of U.S. tax reform for the deferred income tax effects of the Act. Therefore, we expect to record a \$389 million income tax benefit related to this matter in the fourth quarter of 2018.

In 2018, certain foreign earnings will not be subject to U.S. federal income tax on a current basis as a result of differences between U.S. GAAP and U.S. tax treatment. Management intends to indefinitely reinvest those earnings. The amount expected to be indefinitely reinvested in 2018 is between \$200 million and \$300 million. The related unrecognized deferred tax liability would be approximately 24% of the indefinitely reinvested earnings.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion invalidating the regulations relating to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision was issued by the Tax Court in December 2015. The IRS appealed the decision in June 2016. On July 24, 2018, the Ninth Circuit Federal Court issued a decision that was subsequently withdrawn to allow time for a reconstituted panel to confer on the appeal. Due to the uncertainty surrounding the status of the current regulations, questions related to the scope of potential benefits or obligations, and the risk of the Tax Court's decision

## eBay Inc.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

being overturned upon appeal, we have not recorded any benefit or expense as of September 30, 2018. We will continue to monitor ongoing developments and potential impacts to our condensed consolidated financial statements.

**Note 14 — Accumulated Other Comprehensive Income**

The following tables summarize the changes in AOCI for the three and nine months ended September 30, 2018 and 2017 (in millions):

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of June 30, 2018	\$ 51	\$ (53 )	\$ 555	\$ 28	\$581
Other comprehensive income (loss) before reclassifications	(4 )	8	(25 )	(1 )	(22 )
Less: Amount of gain (loss) reclassified from AOCI	12	—	—	(3 )	9
Net current period other comprehensive income (loss)	(16 )	8	(25 )	2	(31 )
Balance as of September 30, 2018	\$ 35	\$ (45 )	\$ 530	\$ 30	\$550

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of December 31, 2017	\$ (57 )	\$ (15 )	\$ 748	\$ 41	\$717
Other comprehensive income (loss) before reclassifications	55	(31 )	(218 )	(3 )	(197 )
Less: Amount of gain (loss) reclassified from AOCI	(37 )	(1 )	—	8	(30 )
Net current period other comprehensive income (loss)	92	(30 )	(218 )	(11 )	(167 )
Balance at September 30, 2018	\$ 35	\$ (45 )	\$ 530	\$ 30	\$550

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of June 30, 2017	\$ (44 )	\$ 2	\$ 446	\$ 33	\$437
Other comprehensive income (loss) before reclassifications	(31 )	3	115	3	90
Less: Amount of gain (loss) reclassified from AOCI	(7 )	(4 )	—	—	(11 )
Net current period other comprehensive income (loss)	(24 )	7	115	3	101
Balance as of September 30, 2017	\$ (68 )	\$ 9	\$ 561	\$ 36	\$538



## eBay Inc.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of December 31, 2016	\$ 54	\$ 51	\$ (230 )	\$ 1	\$(124)
Other comprehensive income (loss) before reclassifications	(94 )	(29 )	791	35	703
Less: Amount of gain (loss) reclassified from AOCI	28	13	—	—	41
Net current period other comprehensive income (loss)	(122 )	(42 )	791	35	662
Balance as of September 30, 2017	\$ (68 )	\$ 9	\$ 561	\$ 36	\$538

The following table provides details about reclassifications out of AOCI for the three and nine months ended September 30, 2018 and 2017 (in millions):

Details about AOCI Components	Affected Line Item in the Statement of Income	Amount of Gain (Loss) Reclassified From AOCI			
		Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Gains (losses) on cash flow hedges - foreign exchange contracts	Net Revenues	\$12	\$(7 )	\$(37 )	\$(7 )
	Cost of net revenues	—	—	—	3
	Sales and marketing	—	—	—	1
	Product development	—	—	—	5
	General and administrative	—	—	—	2
	Interest and other, net	—	—	—	24
	Total, from continuing operations before income taxes	12	(7 )	(37 )	28
	Provision for income taxes	(3 )	—	8	—
	Total, net of income taxes	9	(7 )	(29 )	28
Unrealized gains (losses) on investments	Interest and other, net	—	(4 )	(1 )	13
	Total, before income taxes	—	(4 )	(1 )	13
	Provision for income taxes	—	—	—	—
	Total, net of income taxes	—	(4 )	(1 )	13
Total reclassifications for the period	Total, net of income taxes	\$9	\$(11 )	\$(30 )	\$41

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****Note 15 — Restructuring**

The following table summarizes restructuring reserve activity during the nine months ended September 30, 2018 (in millions):

	<b>Employee Severance and Benefits</b>
Accrued liability as of January 1, 2018	\$ —
Charges	84
Payments	(49 )
Other	(17 )
Accrued liability as of September 30, 2018	\$ 18

In June 2018, management approved a plan to implement a strategic reduction of our existing global workforce. The reduction was substantially completed in the second quarter of 2018. The Company incurred pre-tax restructuring charges of approximately \$84 million. The restructuring charges, which primarily related to employee severance and benefits, were aggregated in general and administrative expenses in the condensed consolidated statement of income. Other adjustments were primarily related to settlements of previous contractual commitments in the second quarter of 2018. No restructuring charges were recognized during the nine months ended September 30, 2017.

## ITEM 2: **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **FORWARD-LOOKING STATEMENTS**

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Part II - Item 1A: Risk Factors" of this Quarterly Report on Form 10-Q as well as in our unaudited condensed consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission ("SEC"). We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the unaudited condensed consolidated financial statements and the related notes included in this report.*

### **OVERVIEW**

#### **Business**

eBay Inc. is a global commerce leader, which includes our Marketplace, StubHub and Classifieds platforms. Our Marketplace platforms include our online marketplace located at [www.ebay.com](http://www.ebay.com), its localized counterparts and the eBay mobile apps. Our StubHub platforms include our online ticket platform located at [www.stubhub.com](http://www.stubhub.com), its localized counterparts and the StubHub mobile apps. Our Classifieds platforms include a collection of brands such as Mobile.de, Kijiji, Gumtree, Marktplaats, eBay Kleinanzeigen and others.

When we refer to "we," "our," "us" or "eBay" in this Quarterly Report on Form 10-Q, we mean the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of our consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires.

#### **Seasonality**

We expect transaction activity patterns on our platforms to mirror general consumer buying patterns and expect that these trends will continue. The following table sets forth, for the periods presented, our total net revenues and the sequential quarterly movements of these net revenues (in millions, except percentages):

	Quarter Ended			
	March 31	June 30	September 30	December 31
2016				
Net revenues	\$2,216	\$2,309	\$2,299	\$2,474
Percent change from prior quarter	(5)	)% 4	% 0	% 8

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**2017**

Net revenues	\$2,303	\$2,419	\$2,498	\$2,707
Percent change from prior quarter	(7 )%	5 %	3 %	8 %

**2018**

Net revenues	\$2,580	\$2,640	\$2,649
Percent change from prior quarter	(5 )%	2 %	0 %

### ***Impact of Foreign Currency Exchange Rates***

Our commerce platforms operate globally, resulting in certain revenues that are denominated in foreign currencies, primarily the euro, British pound, Korean won and Australian dollar, subjecting us to foreign currency risk, which may adversely impact our financial results. Because of this and the fact that we generate a majority of our net revenues internationally, including during the nine months ended September 30, 2018 and 2017, we are subject to the risks related to doing business in foreign countries as discussed under “Part II - Item 1A: Risk Factors.”

In addition to the corresponding measures under generally accepted accounting principles (“GAAP”), management uses non-GAAP measures in reviewing our financial results. The foreign exchange neutral (“FX-Neutral”), or constant currency, net revenue amounts discussed below are non-GAAP financial measures and are not in accordance with, or an alternative to, measures prepared in accordance with GAAP. Accordingly, the FX-Neutral information appearing in the following discussion of our results of operations should be read in conjunction with the information provided below in “*Non-GAAP Measures of Financial Performance*,” which includes reconciliations of FX-Neutral financial measures to the most directly comparable GAAP measures. We calculate the year-over-year impact of foreign currency movements using prior period foreign currency rates applied to current year transactional currency amounts.

The effect of foreign currency exchange rate movements during the three months ended September 30, 2018 compared to the same period in 2017 was primarily attributable to the strengthening of the U.S. dollar against the euro and Australian dollar.

### ***Quarter Highlights***

Net revenues increased 6% to \$2.6 billion during the three months ended September 30, 2018 compared to the same period in 2017. FX-Neutral net revenue (as defined below) increased 6% during the three months ended September 30, 2018 compared to the same period in 2017. Operating margin decreased to 21.0% for the three months ended September 30, 2018 compared to 23.0% for the same period in 2017. Diluted earnings per share increased to \$0.73 during the three months ended September 30, 2018 compared to \$0.48 in the same period in 2017.

We generated cash flow from continuing operating activities of \$560 million during the three months ended September 30, 2018 compared to \$877 million in the same period in 2017. In addition, we recognized a \$313 million gain on the sale of our investment in Flipkart.

## **RESULTS OF OPERATIONS**

### ***Net Revenues***

We generate two types of net revenues: net transaction revenues and marketing services and other (“MS&O”) revenues. Net transaction revenues are derived principally from final value fees (which are fees payable on transactions closed on our Marketplace and StubHub platforms), listing fees and other service fees. MS&O revenues consist of Marketplace, StubHub and Classifieds revenue principally from the sale of advertisements, vehicles classifieds listing on Marketplace platforms, revenue sharing arrangements, classifieds fees and marketing service fees. Revenues are attributed to U.S. and international geographies primarily based upon the country in which the seller, platform that displays advertising, other service provider or customer, as the case may be, is located. To drive traffic to our platforms, we provide incentives to our users, including discounts, coupons and rewards. If the incentive is generally considered a payment

back to a customer it is treated as a reduction in revenue.

The following table presents net revenues by type and geography (in millions, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Net Revenues by Type:</b>						
<b>Net transaction revenues:</b>						
Marketplace <sup>(1)</sup>	\$1,803	\$1,698	6 %	\$5,432	\$4,986	9 %
StubHub	286	270	6 %	757	705	7 %
Total net transaction revenues	2,089	1,968	6 %	6,189	5,691	9 %
<b>Marketing services and other revenues:</b>						
Marketplace	301	293	3 %	909	859	6 %
Classifieds	254	235	8 %	759	653	16 %
StubHub, Corporate and other	5	2	123 %	12	17	(29) %
Total marketing services and other revenues	560	530	6 %	1,680	1,529	10 %
Total net revenues	\$2,649	\$2,498	6 %	\$7,869	\$7,220	9 %
<b>Net Revenues by Geography:</b>						
U.S.	\$1,084	\$1,047	3 %	\$3,213	\$3,042	6 %
International	1,565	1,451	8 %	4,656	4,178	11 %
Total net revenues	\$2,649	\$2,498	6 %	\$7,869	\$7,220	9 %

<sup>(1)</sup> Marketplace net transaction revenues were net of \$12 million and \$37 million hedging activity during the three and nine months ended September 30, 2018 and \$7 million hedging activity during both the three and nine months ended September 30, 2017.

The following table presents certain key operating metrics that we believe are significant factors affecting our net transaction revenues (in millions, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Supplemental Operating Data:</b>						
GMV <sup>(1)</sup> :						
Marketplace	\$21,482	\$20,518	5 %	\$66,598	\$60,890	9 %
StubHub	1,237	1,162	7 %	3,341	3,088	8 %
Total GMV	\$22,719	\$21,680	5 %	\$69,939	\$63,978	9 %
Transaction take rate:						
Marketplace <sup>(2)</sup>	8.39 %	8.28 %	0.11 %	8.16 %	8.19 %	(0.03) %
StubHub <sup>(3)</sup>	23.12 %	23.18 %	(0.06) %	22.65 %	22.81 %	(0.16) %
Total transaction take rate <sup>(4)</sup>	9.19 %	9.08 %	0.11 %	8.85 %	8.89 %	(0.04) %

We define Gross Merchandise Volume ("GMV") as the total value of all successfully closed transactions between users on our Marketplace and StubHub platforms during the applicable period regardless of whether the buyer and seller actually consummated the transaction. We believe <sup>(1)</sup> 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.

<sup>(2)</sup> We define Marketplace transaction take rate as Marketplace net transaction revenues divided by Marketplace GMV.

<sup>(3)</sup> We define StubHub transaction take rate as StubHub net transaction revenues divided by StubHub GMV.

<sup>(4)</sup> We define total transaction take rate as total net transaction revenues divided by GMV.





**Net Transaction Revenues**

The following table presents total net transaction revenues and supplemental operating data (in millions, except percentages):

	Three Months Ended September 30,			% Change			Nine Months Ended September 30,			% Change		
	2018	2017		As Reported	FX-Neutral		2018	2017		As Reported	FX-Neutral	
Total net transaction revenues	\$2,089	\$1,968	6	%	5	%	\$6,189	\$5,691	9	%	7	%
Percentage of net revenues	79	%	79	%			79	%	79	%		
Total GMV	\$22,719	\$21,680	5	%	5	%	\$69,939	\$63,978	9	%	6	%
Total transaction take rate	9.19	%	9.08	%	0.11	%	8.85	%	8.89	%	(0.04)	%

The changes in net transaction revenues and total transaction take rate during the three and nine months ended September 30, 2018 compared to the same periods in 2017 was primarily due to the changes in Marketplace net transaction revenues and Marketplace transaction take rate discussed below.

Net transaction revenues earned internationally totaled \$1.1 billion and \$1.1 billion during the three months ended September 30, 2018 and 2017, respectively, representing 55% and 54% of total net transaction revenues for the respective periods. Net transaction revenues earned internationally totaled \$3.4 billion and \$3.1 billion during the nine months ended September 30, 2018 and 2017, respectively, representing 55% and 54% of total net transaction revenues for the respective periods.

**Marketplace Net Transaction Revenues**

The following table presents Marketplace net transaction revenues and supplemental operating data (in millions, except percentages):

	Three Months Ended September 30,			% Change			Nine Months Ended September 30,			% Change		
	2018	2017		As Reported	FX-Neutral		2018	2017		As Reported	FX-Neutral	
Marketplace net transaction revenues	\$1,803	\$1,698	6	%	5	%	\$5,432	\$4,986	9	%	6	%
Marketplace GMV	\$21,482	\$20,518	5	%	5	%	\$66,598	\$60,890	9	%	6	%
Marketplace take rate	8.39	%	8.28	%	0.11	%	8.16	%	8.19	%	(0.03)	%

The increase in Marketplace net transaction revenues during the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in Marketplace GMV and growth in promoted listing fees. Marketplace transaction take rate was higher during the three months ended September 30, 2018 compared to the same period in 2017, primarily due to growth in promoted listing fees and hedging activity, partially offset by category mix.

The increase in Marketplace net transaction revenues during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in Marketplace GMV and a favorable impact from foreign currency movements relative to the U.S. dollar. Marketplace transaction take rate was lower during the nine months ended September 30, 2018 compared to the same period in 2017, primarily due to category mix and hedging activity.



**StubHub Net Transaction Revenues**

The following table presents StubHub net transaction revenues and supplemental operating data (in millions, except percentages):

	Three Months Ended September 30,					Nine Months Ended September 30,				
			% Change					% Change		
	2018	2017	As Reported	FX-Neutral		2018	2017	As Reported	FX-Neutral	
StubHub net transaction revenues	\$286	\$270	6	% 6	%	\$757	\$705	7	% 7	%
StubHub GMV	\$1,237	\$1,162	7	% 7	%	\$3,341	\$3,088	8	% 8	%
StubHub take rate	23.12	% 23.18	%	(0.06)%		22.65	% 22.81	%	(0.16)%	

The increase in StubHub net transaction revenues during the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in StubHub GMV. The increase in StubHub GMV during the three months ended September 30, 2018 compared to the same period in 2017 was primarily driven by Concerts. The decrease in StubHub transaction take rate during the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to buyer incentives, partially offset by pricing changes.

The increase in StubHub net transaction revenues during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in StubHub GMV. The increase in StubHub GMV during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily driven by Sports and Concerts. The decrease in StubHub transaction take rate during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to event mix and buyer incentives, partially offset by pricing changes.

**Marketing Services and Other Revenues**

The following table presents MS&O revenues (in millions, except percentages):

	Three Months Ended September 30,					Nine Months Ended September 30,				
			% Change					% Change		
	2018	2017	As Reported	FX-Neutral		2018	2017	As Reported	FX-Neutral	
<b>MS&amp;O revenues:</b>										
Marketplace	\$301	\$293	3	% 3	%	\$909	\$859	6	% 3	%
Classifieds	254	235	8	% 11	%	759	653	16	% 10	%
StubHub, Corporate and other	5	2	123	% 123	%	12	17	(29)	% (31)	%
Total MS&O revenues	\$560	\$530	6	% 7	%	\$1,680	\$1,529	10	% 6	%
Percentage of net revenues	21	% 21	%			21	% 21	%		

The increase in total MS&O revenues during the three months ended September 30, 2018 compared to the same period in 2017 was primarily driven by an increase in Classifieds MS&O revenues. The increase in total MS&O revenues during the nine months ended September 30, 2018 compared to the same periods in 2017 was primarily driven by an increase in Classifieds MS&O revenues and a favorable impact from foreign currency movements relative to the U.S. dollar.

**Marketplace MS&O Revenues**

The increase in Marketplace MS&O revenues during the three and nine months ended September 30, 2018 compared to the same periods in 2017 was primarily driven by an increase in revenues attributable to our first-party inventory program in Korea and revenue sharing arrangements, particularly shipping, partially offset by a decrease in advertising revenues.

*Classifieds MS&O Revenues*

The increase in Classifieds MS&O revenues during the three and nine months ended September 30, 2018 compared to the same periods in 2017 was primarily driven by increased revenue from our Classifieds platforms in Germany.

**Cost of Net Revenues**

Cost of net revenues primarily consists of costs associated with customer support, site operations, costs of goods sold and payment processing. Significant components of these costs include employee compensation, contractor costs, facilities costs, depreciation of equipment and amortization expense, inventory program costs, bank transaction fees, and credit card interchange and assessment fees. The following table presents cost of net revenues (in millions, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Cost of net revenues	\$ 608	\$ 557	9 %	\$ 1,764	\$ 1,631	8 %
As a percentage of net revenues	23.0 %	22.3 %		22.4 %	22.6 %	

The increase in cost of net revenues during the three and nine months ended September 30, 2018 compared to the same periods in 2017 was primarily due to an increase in site operation costs, an increase in costs of goods sold driven by our first-party inventory program in Korea and an increase in payment processing costs.

Cost of net revenues was marginally impacted by foreign currency movements relative to the U.S. dollar during the three months ended September 30, 2018 compared to the same period in 2017. Cost of net revenues was unfavorably impacted by \$40 million attributable to foreign currency movements relative to the U.S. dollar during the nine months ended September 30, 2018 compared to the same period in 2017. There was no hedging activity within cost of net revenues during the three and nine months ended September 30, 2018.

**Operating Expenses**

The following table presents operating expenses (in millions, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Sales and marketing	\$ 852	\$ 719	18 %	\$ 2,446	\$ 2,094	17 %
<i>Percentage of net revenues</i>	32	% 29	%	31	% 29	%
Product development	307	316	(3 )%	993	907	9 %
<i>Percentage of net revenues</i>	12	% 13	%	13	% 13	%
General and administrative	248	254	(2 )%	886	766	16 %
<i>Percentage of net revenues</i>	9	% 10	%	11	% 11	%
Provision for transaction losses	65	68	(4 )%	203	193	5 %
<i>Percentage of net revenues</i>	2	% 3	%	3	% 3	%
Amortization of acquired intangible assets	13	10	31 %	36	28	29 %
Total operating expenses	\$ 1,485	\$ 1,367	9 %	\$ 4,564	\$ 3,988	14 %

Foreign currency movements relative to the U.S. dollar had a favorable impact of \$7 million on operating expenses during the three months ended September 30, 2018 compared to the same period in 2017 and an unfavorable impact of \$87 million on operating expenses during the nine months ended September 30, 2018 compared to the same period in 2017. There was no hedging activity within operating expenses during the three and nine months ended September 30, 2018.

### ***Sales and Marketing***

Sales and marketing expenses primarily consist of advertising and marketing program costs (both online and offline), employee compensation, certain user coupons and rewards, contractor costs, facilities costs and depreciation on equipment. Online marketing expenses represent traffic acquisition costs in various channels such as paid search, affiliates marketing and display advertising. Offline advertising includes primarily brand campaigns and buyer/seller communications.

The increase in sales and marketing expense during the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in user coupons and rewards, traffic acquisition costs and brand campaigns.

The increase in sales and marketing expense during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in user coupons and rewards, traffic acquisition costs and an unfavorable impact from foreign currency movements relative to the U.S. dollar.

### ***Product Development***

Product development expenses primarily consist of employee compensation, contractor costs, facilities costs and depreciation on equipment. Product development expenses are net of required capitalization of major platform and other product development efforts, including the development and maintenance of our technology platforms. Our top technology priorities include structured data, artificial intelligence and machine learning, virtual and augmented reality, multi-screen capabilities, improved seller tools, buyer experiences and payment intermediation capabilities.

The decrease in product development expense during the three months ended September 30, 2018 compared to the same period in 2017 was not significant. The increase in product development expenses during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to an increase in employee-related costs.

Capitalized internal use and platform development costs were \$37 million and \$110 million in the three and nine months ended September 30, 2018 compared to \$36 million and \$103 million for the same periods in 2017. These costs are primarily reflected as a cost of net revenues when amortized in future periods.

### ***General and Administrative***

General and administrative expenses primarily consist of employee compensation, contractor costs, facilities costs, depreciation of equipment, employer payroll taxes on stock-based compensation, legal expenses, restructuring, insurance premiums and professional fees. Our legal expenses, including those related to various ongoing legal proceedings, may fluctuate substantially from period to period.

The increase in general and administrative expense during the three months ended September 30, 2018 compared to the same period in 2017 was not significant. The increase in general and administrative expenses during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to restructuring costs related to our global workforce reduction. For additional details related to the restructuring, refer to "Note 15 – Restructuring" to the condensed consolidated financial statements included in this report.





**Interest and Other, Net**

Interest and other, net primarily consists of interest earned on cash, cash equivalents and investments, as well as foreign exchange transaction gains and losses, gains and losses due to changes in fair value of the warrant received from a service provider, our portion of operating results from investments accounted for under the equity method of accounting, investment gain/loss on acquisitions or disposals and interest expense, consisting of interest charges on any amounts borrowed and commitment fees on unborrowed amounts under our credit agreement and interest expense on our outstanding debt securities and commercial paper, if any. The following table presents interest and other, net (in millions, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Total interest and other, net	\$392	\$120	**	\$661	\$113	**
Percentage of net revenues	15 %	5 %		8 %	2 %	

\*\* Not meaningful

The increase in interest and other, net during the three months ended September 30, 2018 compared to the same period in 2017 was primarily attributable to the gain recognized on the sale of our investment in Flipkart and gain recognized due to the change in fair value of the warrant.

The increase in interest and other, net during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily attributable to the gains recognized on the sale of our investment in Flipkart and relinquishment of our existing equity method investment in Giosis, and gain recognized due to the change in fair value of the warrant.

**Income Tax Provision**

The following table presents provision for income taxes (in millions, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income tax provision	\$228	\$174	\$437	\$130
Effective tax rate	24.1 %	25.0 %	19.9 %	7.6 %

The decrease in our effective tax rate for the three months ended September 30, 2018 compared to the same period in 2017 was primarily related to the effects of U.S. tax reform on our global income and the prior year favorable impact of the sale of our eBay India business.

The increase in our effective tax rate for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily related to the recognition in the first quarter of 2017 of deferred tax assets of approximately \$695 million as a result of our legal entity realignment and the associated tax agreements and the 2017 favorable impact of the sale of eBay.in, partially offset by the prior year impact of a noncash income tax charge of \$311 million caused by the foreign exchange remeasurement of our deferred tax assets that did not recur in 2018. The tax rate was favorably impacted by U.S. tax reform and the gain recognized from the relinquishment of our existing equity method investment in Giosis in the

second quarter 2018 that is not subject to U.S. federal income tax on a current basis.

As a result of the realignment of our legal structure in 2016 and 2017, we no longer benefit from tax rulings previously concluded in several different jurisdictions. Without the benefit of the rulings, the noncash tax impacts of the realignment in our foreign eBay and Classifieds platforms have increased our income tax rate in certain foreign jurisdictions, most significantly Switzerland. The higher rate results from eBay being subject to a higher enacted tax rate for the foreseeable future.

While our tax rate is higher, the realignment allows us to achieve certain foreign cash tax benefits due to the step-up in tax basis achieved in certain foreign jurisdictions. We expect these cash tax benefits to remain consistent, subject to the performance of our foreign platforms, for a period in excess of 10 years. The realignment is expected to be substantially complete by the end of 2018 and primarily impact our international entities. However, U.S. tax reform and the new U.S. minimum tax on foreign earnings will reduce our expected consolidated cash tax benefits.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act" or "U.S. tax reform") was enacted. U.S. tax reform, among other things, reduces the U.S. federal income tax rate from 35% to 21% in 2018, institutes a dividends received deduction for foreign earnings with a related tax for the deemed repatriation of unremitted foreign earnings and creates a new U.S. minimum tax on earnings of foreign subsidiaries. We recognized a provisional income tax charge of \$3.1 billion in the fourth quarter of 2017, which was included as a component of the income tax provision on our condensed consolidated statement of income.

We computed the amount based on information available to us, including our expectation that existing foreign basis differences will affect the amount of U.S. minimum tax upon reversal; however, there is still uncertainty as to the application of the Act. As of September 30, 2018, we have not yet completed our analysis of the components of the tax computation, including a complete reconciliation of the book and tax bases in our foreign subsidiaries. As we complete our analysis of U.S. tax reform, we may make adjustments to the provisional amounts, which may materially impact our provision for income taxes from continuing operations in the period in which the adjustments are made. We expect to complete our analysis by the fourth quarter of 2018. During the third quarter of 2018, we recorded an immaterial increase to the provisional amount recorded in the fourth quarter of 2017.

On October 11, 2018, we received a favorable tax ruling in connection with the ongoing realignment of our legal structure. The ruling will result in a reduction of the provisional amounts recorded in the fourth quarter of 2017 as a result of U.S. tax reform for the deferred income tax effects of the Act. Therefore, we expect to record a \$389 million income tax benefit related to this matter in the fourth quarter of 2018.

From time to time we engage in certain intercompany transactions. We consider many factors when evaluating these transactions. These transactions may impact our tax rate and/or result in additional cash tax payments. The impact in any period may be significant. These transactions are complex and the impact of such transactions on future periods may be difficult to estimate.

We are regularly under examination by tax authorities both domestically and internationally. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations, although we cannot assure you that this will be the case given the inherent uncertainties in these examinations. Due to the ongoing tax examinations, we believe it is impractical to determine the amount and timing of these adjustments.

**Non-GAAP Measures of Financial Performance**

To supplement our condensed consolidated financial statements presented in accordance with generally accepted accounting principles, we use FX-Neutral net revenues, which are non-GAAP financial measures. Management uses the foregoing non-GAAP measures in reviewing our financial results. We define FX-Neutral net revenues as net revenues minus the exchange rate effect. We define exchange rate effect as the year-over-year impact of foreign currency movements using prior period foreign currency rates applied to current year transactional currency amounts, excluding hedging activity.

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 our results of operations as determined in accordance with GAAP. These measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

These non-GAAP measures are provided to enhance investors' overall understanding of our current financial performance and its prospects for the future. Specifically, we believe these non-GAAP measures provide useful information to both management and investors by excluding the foreign currency exchange rate impact that may not be indicative of our core operating results and business outlook. In addition, because we have historically reported certain non-GAAP results to investors, we believe that the inclusion of these non-GAAP measures provide consistency in our financial reporting.

The following tables set forth a reconciliation of FX-Neutral GMV and FX-Neutral net revenues (each as defined below) to our reported GMV and net revenues for the periods presented (in millions, except percentages):

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	As Reported	Exchange Rate Effect <sup>(1)(3)</sup>	FX-Neutral <sup>(2)</sup>	As Reported	As Reported % Change	FX-Neutral % Change
<b>GMV:</b>						
Marketplace	\$21,482	\$ (63 )	\$ 21,545	\$ 20,518	5 %	5 %
StubHub	1,237	(1 )	1,238	1,162	7 %	7 %
Total GMV	\$22,719	\$ (64 )	\$ 22,783	\$ 21,680	5 %	5 %
<b>Net transaction revenues:</b>						
Marketplace	\$1,803	\$ 10	\$ 1,793	\$ 1,698	6 %	5 %
StubHub	286	—	286	270	6 %	6 %
Total net transaction revenues	2,089	10	2,079	1,968	6 %	5 %
<b>Marketing services and other revenues:</b>						
Marketplace	301	—	301	293	3 %	3 %
Classifieds	254	(6 )	260	235	8 %	11 %
StubHub, Corporate and other	5	—	5	2	123 %	123 %
Total marketing services and other revenues	560	(6 )	566	530	6 %	7 %
Total net revenues	\$2,649	\$ 4	\$ 2,645	\$ 2,498	6 %	6 %



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	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017				
	As Reported	Exchange Rate Effect <sup>(1)(3)</sup>	FX-Neutral <sup>(2)</sup>	As Reported	As Reported % Change	FX-Neutral % Change		
<b>GMV:</b>								
Marketplace	\$66,598	\$ 2,019	\$ 64,579	\$ 60,890	9	%	6	%
StubHub	3,341	9	3,332	3,088	8	%	8	%
Total GMV	\$69,939	\$ 2,028	\$ 67,911	\$ 63,978	9	%	6	%
<b>Net transaction revenues:</b>								
Marketplace	\$5,432	\$ 116	\$ 5,316	\$ 4,986	9	%	6	%
StubHub	757	2	755	705	7	%	7	%
Total net transaction revenues	6,189	118	6,071	5,691	9	%	7	%
<b>Marketing services and other revenues:</b>								
Marketplace	909	26	883	859	6	%	3	%
Classifieds	759	39	720	653	16	%	10	%
StubHub, Corporate and other	12	—	12	17	(29)	%)	(31)	%)
Total marketing services and other revenues	1,680	65	1,615	1,529	10	%	6	%
Total net revenues	\$7,869	\$ 183	\$ 7,686	\$ 7,220	9	%	6	%

(1) We define exchange rate effect as the year-over-year impact of foreign currency movements using prior period foreign currency rates applied to current year transactional currency amounts excluding hedging activity.

(2) We define FX-Neutral GMV as GMV minus the exchange rate effect. We define the non-GAAP financial measures of FX-Neutral net revenues as net revenues minus the exchange rate effect.

(3) Marketplace Exchange Rate Effect was net of \$12 million and \$37 million hedging activity during the three and nine months ended September 30, 2018 and \$7 million hedging activity during both the three and nine months ended September 30, 2017.

## Liquidity and Capital Resources

### Cash Flows

	Nine Months Ended September 30, 2018 2017 (In millions)	
Net cash provided by (used in):		
Operating activities	\$1,427	\$2,158
Investing activities	2,473	(1,507)
Financing activities	(3,887)	(888)
Effect of exchange rates on cash, cash equivalents and restricted cash	(50)	184
Net decrease in cash and cash equivalents - discontinued operations	(2)	—
Net increase (decrease) in cash, cash equivalents and restricted cash	\$(39)	\$(53)

### Operating Activities

Cash provided by continuing operating activities of \$1,427 million in the nine months ended September 30, 2018 was primarily attributable to net income of \$1.8 billion with adjustments of \$524 million in depreciation and amortization, \$396 million in stock-based compensation, \$203 million in provision for transaction losses

and \$81 million for deferred income taxes, partially offset by a decrease of \$738 million in changes in assets and liabilities and other, net of acquisition effects, adjustments of \$572 million for gain on investments, and \$232 million for changes in fair value of the warrant.

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The net cash provided by operating activities of \$2.2 billion in the nine months ended September 30, 2017 was primarily due to net income of \$1.6 billion with adjustments of \$504 million in depreciation and amortization, \$356 million in stock-based compensation and \$193 million in provision for transaction losses, partially offset by adjustments of \$39 million for deferred income taxes, \$167 million for the gain on disposal of eBay India, and a decrease of \$252 million in changes in assets and liabilities and other, net of acquisition effects.

#### *Investing Activities*

Cash provided by investing activities of \$2.5 billion in the nine months ended September 30, 2018 was primarily attributable to proceeds of \$18.4 billion from the maturities of investments and \$1.0 billion from the sale of equity investment in Flipkart, partially offset by cash paid for purchases of investments of \$16.2 billion, property and equipment of \$521 million and acquisitions of \$302 million.

The net cash used in investing activities of \$1.5 billion in the nine months ended September 30, 2017 was primarily due to cash paid for purchases of investments of \$11.3 billion, our equity investment in Flipkart of \$514 million and property and equipment of \$474 million, partially offset by proceeds of \$10.8 billion from the maturities and sale of investments.

#### *Financing Activities*

Cash used in financing activities of \$3.9 billion in the nine months ended September 30, 2018 was primarily used to repurchase \$3.0 billion of common stock and repay \$750 million of our outstanding senior notes.

The net cash used in financing activities of \$888 million in the nine months ended September 30, 2017 was primarily due to cash used to repay \$1.5 billion of our outstanding senior notes and to repurchase \$1.8 billion of common stock, partially offset by cash proceeds of \$2.5 billion from the issuance of senior notes.

The negative effect of exchange rate movements on cash, cash equivalents and restricted cash was due to the weakening of the U.S. dollar against other currencies, primarily the euro and Korean won during the nine months ended September 30, 2018 compared to the 2017 year-end rate.

#### ***Stock Repurchases***

In July 2017, our Board authorized a \$3.0 billion stock repurchase program and in January 2018, our Board authorized an additional \$6.0 billion stock repurchase program. These stock repurchase programs have no expiration from the date of authorization. Our stock repurchase programs are intended to programmatically offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic and programmatic repurchases of our common stock to reduce our outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives.

During the nine months ended September 30, 2018, we repurchased approximately \$3.0 billion of our common stock under our stock repurchase programs. As of September 30, 2018, a total of approximately \$4.7 billion remained available for future repurchases of our common stock under our stock repurchase programs.



We expect, subject to market conditions and other uncertainties, to continue making opportunistic and programmatic repurchases of our common stock. However, our stock repurchase programs may be limited or terminated at any time without prior notice. The timing and actual number of shares repurchased will depend on a variety of factors, including corporate and regulatory requirements, price and other market conditions and management's determination as to the appropriate use of our cash.

## ***Shelf Registration Statement and Debt***

### *Shelf Registration*

As of September 30, 2018, we had an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue various types of debt securities, as well as common stock, preferred stock, warrants, depositary shares representing fractional interest in shares of preferred stock, purchase contracts and units from time to time in one or more offerings. Each issuance under the shelf registration statement will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. The registration statement does not limit the amount of securities that may be issued thereunder. Our ability to issue securities is subject to market conditions and other factors including, in the case of our debt securities, our credit ratings and compliance with the covenants in our credit agreement.

### *Senior Notes*

As of September 30, 2018, we had floating- and fixed-rate senior notes outstanding for an aggregate principal amount of \$9.3 billion. The net proceeds from the issuances of these senior notes are used for general corporate purposes, including, among other things, capital expenditures, share repurchases, repayment of indebtedness and possible acquisitions. The floating rate notes are not redeemable prior to maturity. On and after March 1, 2021, we may redeem some or all of the 6.000% fixed rate notes due 2056 at any time and from time to time prior to their maturity, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest. We may redeem some or all of the other fixed rate notes of each series at any time and from time to time prior to their maturity, generally at a make-whole redemption price plus accrued and unpaid interest. If a change of control triggering event occurs with respect to the 2.150% fixed rate notes due 2020, the 3.800% fixed rate notes due 2022, the floating rate notes due 2023, the 2.750% fixed rate notes due 2023, the 3.600% fixed rate notes due 2027 or the 6.000% fixed rate notes due 2056, we must, subject to certain exceptions, offer to repurchase all of the notes of the applicable series at a price equal to 101% of the principal amount plus accrued and unpaid interest. For additional details related to our senior notes, please see “Note 9 – Debt” to the condensed consolidated financial statements included in this report.

To help achieve our interest rate risk management objectives, in connection with the previous issuance of certain senior notes, we entered into interest rate swap agreements that effectively converted \$2.4 billion of the fixed rate notes to floating rate debt based on the London InterBank Offered Rate (“LIBOR”) plus a spread. These swaps were designated as fair value hedges against changes in the fair value of certain fixed rate senior notes resulting from changes in interest rates.

The indenture pursuant to which the senior notes were issued includes customary covenants that, among other things and subject to exceptions, limit our ability to incur, assume or guarantee debt secured by liens on specified assets or enter into sale and lease-back transactions with respect to specified properties, and also includes customary events of default.

### *Commercial Paper*

We have a commercial paper program pursuant to which we may issue commercial paper notes in an aggregate principal amount at maturity of up to \$1.5 billion outstanding at any time with maturities of up to 397 days from the date of issue. As of September 30, 2018, there were no commercial paper notes outstanding.



### *Credit Agreement*

As of September 30, 2018, no borrowings were outstanding under our \$2 billion credit agreement. However, as described above, we have an up to \$1.5 billion commercial paper program and therefore maintain \$1.5 billion of available borrowing capacity under our credit agreement in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they become due. As a result, \$500 million of borrowing capacity was available as of September 30, 2018 for other purposes permitted by the credit agreement. The credit agreement includes customary representations, warranties, affirmative and negative covenants, including financial covenants, events of default and indemnification provisions in favor of the banks. The negative covenants include restrictions regarding the incurrence of liens and subsidiary indebtedness, in each case, subject to certain exceptions. The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio. The events of default include the occurrence of a change of control (as defined in the credit agreement) with respect to us.

We were in compliance with all covenants in our outstanding debt instruments for the nine months ended September 30, 2018.

### *Credit Ratings*

As of September 30, 2018, we were rated investment grade by Standard and Poor's Financial Services, LLC (long-term rated BBB+, short-term rated A-2, with a stable outlook), Moody's Investor Service (long-term rated Baa1, short-term rated P-2, with a stable outlook), and Fitch Ratings, Inc. (long-term rated BBB, short-term rated F-2, with a stable outlook). We disclose these ratings to enhance the understanding of our sources of liquidity and the effects of our ratings on our costs of funds. Our borrowing costs depend, in part, on our credit ratings and any further actions taken by these credit rating agencies to lower our credit ratings, as described above, will likely increase our borrowing costs.

### ***Liquidity and Capital Resource Requirements***

As of September 30, 2018 and December 31, 2017, we had assets classified as cash and cash equivalents, as well as short-term and long-term non-equity investments, in an aggregate amount of \$9.0 billion and \$11.3 billion, respectively. As of September 30, 2018, this amount included assets held in certain of our foreign operations totaling approximately \$8.6 billion. As a result of U.S. tax reform, the \$8.6 billion held by our non-U.S. subsidiaries was subject to current tax in the U.S. in 2017. As of September 30, 2018, we have repatriated a portion of these funds to the U.S. As we repatriate these funds to the U.S., we will be required to pay income taxes in certain U.S. states and applicable foreign withholding taxes on those amounts during the period when such repatriation occurs. We have accrued provisional deferred taxes for the tax effect of repatriating the funds to the U.S.

We actively monitor all counterparties that hold our cash and cash equivalents and non-equity investments, focusing primarily on the safety of principal and secondarily on improving yield on these assets. We diversify our cash and cash equivalents and investments among various counterparties in order to reduce our exposure should any one of these counterparties fail or encounter difficulties. To date, we have not experienced any material loss or lack of access to our invested cash, cash equivalents or short-term investments; however, we can provide no assurances that access to our invested cash, cash equivalents or short-term investments will not be impacted by adverse conditions in the financial markets. At any point in time we have funds in our operating accounts and customer accounts that are deposited and invested with

third party financial institutions.

In October 2018, we announced our acquisition of the UK-based classifieds site, Motors.co.uk. We believe the acquisition will increase our international presence and give buyers access to more listings. We expect to close this transaction in the first half of 2019, subject to customary closing conditions and regulatory approvals. The purchase price payable at closing is subject to adjustment. Accordingly, we are unable to estimate the financial statement impact of the sale at this time.

We believe that our existing cash, cash equivalents and short-term and long-term investments, together with cash expected to be generated from operations, borrowings available under our credit agreement and commercial paper program, and our access to capital markets, will be sufficient to fund our operating activities, anticipated capital expenditures, repayment of debt and stock repurchases for the foreseeable future.

### ***Off-Balance Sheet Arrangements***

As of September 30, 2018, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

We have a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals from the financial institution based upon our aggregate operating cash balances held within the same financial institution (“Aggregate Cash Deposits”). This arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income under the arrangement. As of September 30, 2018, we had a total of \$1.7 billion in cash withdrawals partially offsetting our \$1.9 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

### ***Indemnification Provisions***

We entered into a separation and distribution agreement and various other agreements with PayPal to govern the separation and relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us and PayPal, which may be significant. In addition, the indemnity rights we have against PayPal under the agreements may not be sufficient to protect us and our indemnity obligations to PayPal may be significant.

In addition, we have entered into indemnification agreements with each of our directors, executive officers and certain other officers. These agreements require us to indemnify such individuals, to the fullest extent permitted by Delaware law, for certain liabilities to which they may become subject as a result of their affiliation with us.

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain cases, we have agreed to provide indemnification for intellectual property infringement. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in our condensed consolidated statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

### ***Critical Accounting Policies, Judgments and Estimates***

Notwithstanding the changes to our revenue recognition policy as a result of adopting ASC Topic 606, *Revenue from Contracts with Customers*, there were no significant changes to our critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

#### *Revenue Recognition*

We may enter into certain revenue transactions that include promises to transfer multiple goods or services including discounts on future services. We also may enter into arrangements to purchase goods and/or services from certain customers. As a result, significant interpretation and judgment is sometimes required to determine the appropriate accounting for these transactions including: (1) whether services are considered distinct performance obligations that should be accounted for separately versus together; (2) developing an estimate of the stand-alone selling price of each distinct performance obligation; (3) whether revenue should be reported gross (as eBay is acting as a principal), or net (as eBay is acting as an agent); (4) when we provide consideration to our customers, determining whether we are receiving a distinct good or service that is separable from the customer's purchase of our products and/or services and for which we can reasonably estimate fair value; and (5) whether the arrangement would be characterized as revenue or reimbursement of costs incurred. Changes in judgments with respect to these assumptions and estimates could impact the timing or amount of revenue recognition.

### **Item 3: Quantitative and Qualitative Disclosures About Market Risk**

#### ***Interest Rate Risk***

We are exposed to interest rate risk relating to our investments and outstanding debt. We seek to reduce earnings volatility that may result from changes in interest rates.

As of September 30, 2018, approximately 23% of our total cash and investments was held in cash and cash equivalents. As such, changes in interest rates will impact interest income. As discussed below, the fair market values of our fixed rate securities may be adversely affected due to a rise in interest rates, and we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates.

As of September 30, 2018, the balance of our corporate debt and government bond securities was \$6.9 billion, which represented approximately 75% of our total cash and investments. Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate investment securities may be adversely impacted due to a rise in interest rates. In general, fixed-rate securities with longer maturities are subject to greater interest rate risk than those with shorter maturities. While floating rate securities generally are subject to less interest rate risk than fixed-rate securities, floating-rate securities may produce less income than expected if interest rates decrease and may also suffer a decline in market value if interest rates increase. Due in part to these factors, our investment income may fall short of expectations or we may suffer losses in principal if we sell securities that have declined in market value due to changes in interest rates. A 100 basis point increase or decrease in interest rates would not have a material impact on our financial assets or liabilities as of September 30, 2018.

As of September 30, 2018, we had an aggregate principal amount of \$9.3 billion of outstanding senior notes, of which 91% bore interest at fixed rates. We entered into \$2.4 billion of interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with \$1.15 billion of our 2.200% senior notes due July 2019, \$750 million of our 2.875% senior notes due July 2021, and \$500 million of our 3.450% senior notes due July 2024 so that the interest payable on those notes effectively became variable based on LIBOR plus a spread. Further changes in interest rates will impact interest expense on any borrowings under our revolving credit facility, which bear interest at floating rates, and the interest rate on any commercial paper borrowings we make and any debt securities we may issue in the future and, accordingly, will impact interest expense. For additional details related to our debt, see “Note 9 – Debt” to the condensed consolidated financial statements included in this report.

#### ***Equity Price Risk***

##### ***Investments***

The primary objective of our investment activities is to preserve principal while at the same time improving yields without significantly increasing risk. To achieve this objective, we maintain our cash equivalents and short-term and long-term investments in a variety of asset types, including bank deposits, government bonds and corporate debt securities.

As of September 30, 2018, our equity investments totaled \$144 million, which represented approximately 2% of our total cash and investments, and were primarily related to equity investments without readily determinable fair values. We review our investments for impairment when events and circumstances



indicate a decline in fair value of such assets below carrying value is other-than-temporary. Our analysis includes a review of recent operating results and trends, recent sales/acquisitions of the securities in which we have invested and other publicly available data.

*Warrant*

We entered into a warrant agreement with a service provider, which subject to meeting certain conditions, entitles us to acquire a fixed number of shares up to 5% of the service providers fully diluted issued and outstanding share capital. The warrant is accounted for as a derivative instrument under ASC Topic 815, *Derivatives and Hedging*. Changes in the service provider's common stock price and equity volatility may have a significant impact on the value of the warrant. As of September 30, 2018, a one dollar change in the service provider's common stock, holding other factors constant, would increase or decrease the fair value of the warrant by approximately \$1 million. For additional details related to the warrant, please see "Note 7 – Derivative Instruments" to our condensed consolidated financial statements included in this report.

### **Foreign Currency Risk**

Our commerce platforms operate globally, resulting in certain revenues and costs that are denominated in foreign currencies, primarily the euro, British pound, Korean won and Australian dollar, subjecting us to foreign currency risk, which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues as well as costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services we provide. Our cash flow, results of operations and certain of our intercompany balances that are exposed to foreign exchange rate fluctuations may differ materially from expectations and we may record significant gains or losses due to foreign currency fluctuations and related hedging activities.

We have a foreign exchange exposure management program designed to identify material foreign currency exposures, manage these exposures and reduce the potential effects of currency fluctuations on our reported condensed consolidated cash flows and results of operations through the purchase of foreign currency exchange contracts. The effectiveness of the program and resulting usage of foreign exchange derivative contracts is at times limited by our ability to achieve cash flow hedge accounting. For additional details related to our derivative instruments, please see “Note 7 – Derivative Instruments” to our condensed consolidated financial statements included in this report.

We use foreign exchange derivative contracts to help protect our forecasted U.S. dollar-equivalent earnings from adverse changes in foreign currency exchange rates. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse currency exchange rate movements. Most of these contracts are designated as cash flow hedges for accounting purposes. For qualifying cash flow hedges, the derivative’s gain or loss is initially reported as a component of accumulated other comprehensive income (“AOCI”) and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. For contracts not designated as cash flow hedges for accounting purposes, the derivative’s gain or loss is recognized immediately in earnings in our condensed consolidated statement of income. However, only certain revenue and costs are eligible for cash flow hedge accounting.

The following table illustrates the fair values of outstanding foreign exchange contracts designated as cash flow hedges and net investment hedges, and the before-tax effect on fair values of a hypothetical adverse change in the foreign exchange rates that existed as of September 30, 2018. The sensitivity for foreign currency contracts is based on a 20% adverse change in foreign exchange rates, against relevant functional currencies.

	Fair Value Asset/(Liability)	Fair Value Sensitivity
	(In millions)	
Foreign exchange contracts - Cash flow hedges	\$ 62	\$ (167 )
Foreign exchange contracts - Net investment hedges	\$ 7	\$ (168 )

Since our risk management programs are highly effective, the potential loss in value described above would be largely offset by changes in the value of the underlying exposure.

Beginning in the third quarter of 2017, due to the realignment of our legal structure, more currency flows met the GAAP criteria for cash flow hedge accounting. Accordingly, \$12 million and \$37 million in qualifying hedging activity was netted against marketplace net transaction revenues during the three and nine months ended September 30, 2018 as compared to \$7 million during both the three and nine months ended September 30, 2017.

In addition, we use foreign exchange contracts to offset the foreign exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. These contracts reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities. The foreign currency gains and losses on the assets and liabilities are recorded in interest and other, net, which are offset by the gains and losses on the foreign exchange contracts.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately \$18 million as of

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September 30, 2018 taking into consideration the offsetting effect of foreign exchange forwards in place as of September 30, 2018.

**Item 4: Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* Based on the evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2018.

(b) *Changes in internal controls.* There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

### **Item 1: Legal Proceedings**

The information set forth under “*Note 10 — Commitments and Contingencies — Litigation and Other Legal Matters*” to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### **Item 1A: Risk Factors**

You should carefully review the following discussion of the risks that may affect our business, results of operations and financial condition, as well as our condensed consolidated financial statements and notes thereto and the other information appearing in this report, for important information regarding risks that affect us.

#### ***Risk Factors That May Affect our Business, Results of Operations and Financial Condition***

*Our operating and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows, as well as the trading price of our common stock and debt securities.*

Our operating and financial results have varied on a quarterly basis during our operating history and may continue to fluctuate significantly as a result of a variety of factors, including as a result of the risks set forth in this “Risk Factors” section. It is difficult for us to forecast the level or source of our revenues or earnings (loss) accurately. In view of the rapidly evolving nature of our business, period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. We do not have backlog, and substantially all of our net revenues each quarter come from transactions involving sales during that quarter. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast expenses as a percentage of net revenues. Quarterly and annual expenses as a percentage of net revenues reflected in our condensed consolidated financial statements may be significantly different from historical or projected rates. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. The trading price of our common stock and debt securities could decline, perhaps substantially, as a result of the factors described in this paragraph.

*Substantial and increasingly intense competition worldwide in ecommerce may harm our business.*

The businesses and markets in which we operate are intensely competitive. We currently and potentially compete with a wide variety of online and offline companies providing goods and services to consumers and merchants. The Internet and mobile networks provide new, rapidly evolving and intensely competitive channels for the sale of all types of goods and services. We compete in two-sided markets, and must attract both buyers and sellers to use our platforms. Consumers who purchase or sell goods and services through us have more and more alternatives, and merchants have more channels to reach consumers. We expect competition to continue to intensify. Online and offline businesses increasingly are competing with each other and our competitors include a number of online and offline retailers with significant resources, large user communities and well-established brands. Moreover, the barriers to entry into these channels can be low, and businesses easily can launch online sites or mobile platforms and applications at nominal cost by using commercially available software or partnering with any of a number of successful ecommerce

companies. As we respond to changes in the competitive environment, we may, from time to time, make pricing, service or marketing decisions or acquisitions that may be controversial with and lead to dissatisfaction among sellers, which could reduce activity on our platform and harm our profitability.

We face increased competitive pressure online and offline. In particular, the competitive norm for, and the expected level of service from, ecommerce and mobile commerce has significantly increased, due to, among other factors, improved user experience, greater ease of buying goods, lower (or no) shipping costs, faster shipping times and more favorable return policies. Also, certain platform businesses, such as Alibaba, Amazon, Apple, Facebook and Google, many of whom are larger than us or have greater capitalization, have a dominant and secure position in other industries or certain significant markets, and offer other goods and services to consumers and merchants that we do not offer. If we are unable to change our products, offerings and services in ways that reflect the changing demands of ecommerce and mobile commerce marketplaces, particularly the higher growth of sales of fixed-price items and higher expected service levels (some of which depend on services provided by sellers on our platforms), or compete effectively with and adapt to changes in larger platform businesses, our business will suffer.

Competitors with other revenue sources may also be able to devote more resources to marketing and promotional campaigns, adopt more aggressive pricing policies and devote more resources to website, mobile platforms and applications and systems development than we can. Other competitors may offer or continue to offer faster and/or free shipping, delivery on Sunday, same-day delivery, favorable return policies or other transaction-related services which improve the user experience on their sites and which could be impractical or inefficient for our sellers to match. Competitors may be able to innovate faster and more efficiently, and new technologies may increase the competitive pressures by enabling competitors to offer more efficient or lower-cost services.

Some of our competitors control other products and services that are important to our success, including credit card interchange, Internet search, and mobile operating systems. Such competitors could manipulate pricing, availability, terms or operation of service related to their products and services in a manner that impacts our competitive offerings. For example, Google, which operates a shopping platform service, has from time to time made changes to its search algorithms that reduced the amount of search traffic directed to us from searches on Google. If we are unable to use or adapt to operational changes in such services, we may face higher costs for such services, face integration or technological barriers or lose customers, which could cause our business to suffer.

Consumers who might use our sites to buy goods have a wide variety of alternatives, including traditional department, warehouse, boutique, discount and general merchandise stores (as well as the online and mobile operations of these traditional retailers), online retailers and their related mobile offerings, online and offline classified services and other shopping channels, such as offline and online home shopping networks. In the United States, these include Amazon.com, Facebook, Google, Wal-Mart, Target, Macy's, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam's Club, Rakuten, MSN, QVC and Home Shopping Network, among others. In addition, consumers have a large number of online and offline channels focused on one or more of the categories of products offered on our site.

Consumers also can turn to many companies that offer a variety of services that provide other channels for buyers to find and buy items from sellers of all sizes, including social media, online aggregation and classifieds platforms, such as craigslist, Oodle.com and a number of international websites operated by Schibsted ASA or Naspers Limited. Consumers also can turn to shopping-comparison sites, such as Google Shopping. In certain markets, our fixed-price listing and traditional auction-style listing formats increasingly are being challenged by other formats, such as classifieds.

Our Classifieds platforms offer classifieds listings in the United States and a variety of international markets. In many markets in which they operate, our Classifieds platforms compete for customers and for advertisers against more established online and offline classifieds platforms or other competing websites.

We use product search engines and paid search advertising to help users find our sites, but these services also have the potential to divert users to other online shopping destinations. Consumers may choose to search for products and services with a horizontal search engine or shopping comparison website, and such sites may also send users to other shopping destinations. In addition, sellers are increasingly utilizing multiple sales channels, including the acquisition of new customers by paying for search-related advertisements on horizontal search engine sites, such as Google, Naver and Baidu.



Consumers and merchants who might use our sites to sell goods also have many alternatives, including general ecommerce sites, such as Amazon, Alibaba and 11Street, and more specialized sites, such as Etsy. Our international sites also compete for sellers with general and specialized ecommerce sites. Sellers may also choose to sell their goods through other channels, such as classifieds platforms. Consumers and merchants also can create and sell through their own sites, and may choose to purchase online advertising instead of using our services. In some countries, there are online sites that have larger customer bases and greater brand recognition, as well as competitors that may have a better understanding of local culture and commerce. We increasingly may compete with local competitors in developing countries that have unique advantages, such as a greater ability to operate under local regulatory authorities.

In addition, certain manufacturers may limit or cease distribution of their products through online channels, such as our sites. Manufacturers may attempt to use contractual obligations or existing or future government regulation to prohibit or limit ecommerce in certain categories of goods or services. Manufacturers may also attempt to enforce minimum resale price maintenance or minimum advertised price arrangements to prevent distributors from selling on our platforms or on the Internet generally, or at prices that would make us less attractive relative to other alternatives. The adoption by manufacturers of policies, or their use of laws or regulations, in each case discouraging or restricting the sales of goods or services over the Internet, could force our users to stop selling certain products on our platforms, which could result in reduced operating margins, loss of market share and diminished value of our brands.

The principal competitive factors for us include the following:

- ability to attract, retain and engage buyers and sellers;
- volume of transactions and price and selection of goods;
- trust in the seller and the transaction;
- customer service;
- brand recognition;
- community cohesion, interaction and size;
- website, mobile platform and application ease-of-use and accessibility;
- system reliability and security;
- reliability of delivery and payment, including customer preference for fast delivery and free shipping and returns;
- level of service fees; and
- quality of search tools.

We may be unable to compete successfully against current and future competitors. Some current and potential competitors have longer operating histories, larger customer bases and greater brand recognition in other business and Internet sectors than we do.

*Global and regional economic conditions could harm our business.*

Our operations and performance depend significantly on global and regional economic conditions. Adverse economic conditions and events (including volatility or distress in the equity and/or debt or credit markets) have in the past negatively impacted regional and global financial markets and will likely continue to do so from time to time in the future. These events and conditions, including uncertainties and instability in economic and market conditions caused by the United Kingdom's vote to exit the European Union, could have a negative and adverse impact on companies and customers with which we do business or cause us to write down our assets or investments. In addition, financial turmoil affecting the banking system or financial markets could cause additional consolidation of the financial services industry, or significant

financial service institution failures, new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed income, credit, currency, and equity markets. Adverse impacts to the companies and customers with which we do business, the banking system, or financial markets could have a material adverse effect on our business, including a reduction in the volume and prices of transactions on our commerce platforms.

*We are exposed to fluctuations in foreign currency exchange rates.*

Because we generate the majority of our revenues outside the United States but report our financial results in U.S. dollars, our financial results are impacted by fluctuations in foreign currency exchange rates, or foreign exchange rates. The results of operations of many of our internationally focused platforms are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars for financial reporting purposes. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated revenues or expenses will result in increased U.S. dollar denominated revenues and expenses. Similarly, if the U.S. dollar strengthens against foreign currencies, particularly the euro, British pound, Korean won or Australian dollar, our translation of foreign currency denominated revenues or expenses will result in lower U.S. dollar denominated net revenues and expenses. In addition to this translation effect, a strengthening U.S. dollar will typically adversely affect the volume of goods being sold by U.S. sellers to Europe and Australia more than it positively affects the volume of goods being sold by sellers in those geographies to buyers in the United States, thereby further negatively impacting our financial results.

While from time to time we enter into transactions to hedge portions of our foreign currency translation exposure, it is impossible to predict or eliminate the effects of this exposure. Fluctuations in foreign exchange rates could significantly impact our financial results, which may have a significant impact on the trading price of our common stock and debt securities.

*Our international operations are subject to increased risks, which could harm our business.*

Our international businesses, especially in the United Kingdom, Germany, Australia and Korea, and cross-border business from greater China, have generated a majority of our net revenues in recent years. In addition to uncertainty about our ability to generate revenues from our foreign operations and expand into international markets, there are risks inherent in doing business internationally, including:

- uncertainties and instability in economic and market conditions caused by the United Kingdom's vote to exit the European Union;
- uncertainty regarding how the United Kingdom's access to the European Union Single Market and the wider trading, legal, regulatory and labor environments, especially in the United Kingdom and European Union, will be impacted by the United Kingdom's vote to exit the European Union, including the resulting impact on our business and that of our clients;
- expenses associated with localizing our products and services and customer data, including offering customers the ability to transact business in the local currency and adapting our products and services to local preferences (e.g., payment methods) with which we may have limited or no experience;
- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, foreign currency exchange restrictions or extreme fluctuations in foreign currency exchange rates for a particular currency;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, public health issues, acts of war, and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and foreign laws prohibiting corrupt payments to government officials, as well as U.S. and foreign laws designed to combat money laundering

and the financing of terrorist activities;  
antitrust and competition regulations;  
potentially adverse tax developments and consequences;  
economic uncertainties relating to sovereign and other debt;  
different, uncertain, or more stringent user protection, data protection, privacy, and other laws;  
risks related to other government regulation or required compliance with local laws;  
national or regional differences in macroeconomic growth rates;  
local licensing and reporting obligations; and  
increased difficulties in collecting accounts receivable.

Violations of the complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions, or sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could harm our business.

*Any factors that reduce cross-border trade or make such trade more difficult could harm our business.*

Cross-border trade is an important source of both revenue and profits for us. Cross-border trade also represents our primary (or in some cases, only) presence in certain important markets, such as Brazil/Latin America, China, and various other countries. In addition, our cross-border trade is also subject to, and may be impacted by, foreign exchange rate fluctuations.

The interpretation and application of specific national or regional laws, such as those related to intellectual property rights of authentic products, selective distribution networks, and sellers in other countries listing items on the Internet, and the potential interpretation and application of laws of multiple jurisdictions (e.g., the jurisdiction of the buyer, the seller, and/or the location of the item being sold) are often extremely complicated in the context of cross-border trade. The interpretation and/or application of such laws could impose restrictions on, or increase the costs of, purchasing, selling, shipping, or returning goods across national borders.

The shipping of goods across national borders is often more expensive and complicated than domestic shipping. Customs and duty procedures and reviews, including duty-free thresholds in various key markets, the interaction of national postal systems, and security related governmental processes at international borders, may increase costs, discourage cross-border purchases, delay transit and create shipping uncertainties. Any factors that increase the costs of cross-border trade or restrict, delay, or make cross-border trade more difficult or impractical would lower our revenues and profits and could harm our business.

*Our business may be adversely affected by geopolitical events, natural disasters, seasonal factors and other factors that cause our users to spend less time on our websites or mobile platforms and applications, including increased usage of other websites.*

Our users may spend less time on our websites and our applications for mobile devices as a result of a variety of diversions, including: geopolitical events, such as war, the threat of war, or terrorist activity; natural disasters; power shortages or outages, major public health issues, including pandemics; social networking or other entertainment websites or mobile applications; significant local, national or global events capturing the attention of a large part of the population; and seasonal fluctuations due to a variety of factors. If any of these, or any other factors, divert our users from using of our websites or mobile applications, our business could be materially adversely affected.

*Our success depends to a large degree on our ability to successfully address the rapidly evolving market for transactions on mobile devices.*

Mobile devices are increasingly used for ecommerce transactions. A significant and growing portion of our users access our platforms through mobile devices. We may lose users if we are not able to continue to

meet our users' mobile and multi-screen experience expectations. The variety of technical and other configurations across different mobile devices and platforms increases the challenges associated with this environment. In addition, a number of other companies with significant resources and a number of innovative startups have introduced products and services focusing on mobile markets.

Our ability to successfully address the challenges posed by the rapidly evolving market for mobile transactions is crucial to our continued success, and any failure to continuously increase the volume of mobile transactions effected through our platforms could harm our business.

*If we cannot keep pace with rapid technological developments to provide new and innovative programs, products and services, the use of our products and our revenues could decline.*

Rapid, significant technological changes continue to confront the industries in which we operate. We cannot predict the effect of technological changes on our business. In addition to our own initiatives and innovations, we rely in part on third parties, including some of our competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the industries in which we operate will continue to emerge. These new services and technologies may be superior to, or render obsolete, the technologies we currently use in our products and services. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and ultimately may not be successful. In addition, our ability to adopt new services and develop new technologies may be inhibited by industry-wide standards, new laws and regulations, resistance to change from clients or merchants, or third parties' intellectual property rights. Our success will depend on our ability to develop new technologies and adapt to technological changes and evolving industry standards.

*Our business is subject to extensive government regulation and oversight.*

We are subject to laws and regulations affecting our domestic and international operations in a number of areas, including consumer protection, data privacy requirements, intellectual property ownership and infringement, prohibited items and stolen goods, resale of event tickets, tax, anti-competition, export requirements, anti-corruption, labor, advertising, digital content, real estate, billing, ecommerce, promotions, quality of services, telecommunications, mobile communications and media, environmental, and health and safety regulations, as well as laws and regulations intended to combat money laundering and the financing of terrorist activities.

Compliance with these laws, regulations, and similar requirements may be onerous and expensive, and variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products or services in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies and procedures.

*Regulation in the areas of privacy and protection of user data could harm our business.*

We are subject to laws relating to the collection, use, retention, security, and transfer of personally identifiable information about our users around the world. Much of the personal information that we collect, especially financial information, is regulated by multiple laws. User data protection laws may be interpreted and applied inconsistently from country to country. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among ourselves, our subsidiaries, and other parties with which we have commercial relations. These laws continue to develop in ways we cannot predict and that may harm our business.

Regulatory scrutiny of privacy, user data protection, use of data and data collection is increasing on a global basis. We are subject to a number of privacy and similar laws and regulations in the countries in which we operate and these laws and regulations will likely continue to evolve over time, both through regulatory and legislative action and judicial decisions. For example, the General Data Protection

Regulation (“GDPR”) was approved by the European Union Parliament in April 2016 and became effective in May 2018. The GDPR was designed to harmonize and enhance data privacy laws across Europe. Some of these laws impose requirements that are inconsistent with one another, yet regulators may claim that both apply. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and violations of privacy-related laws can result in significant penalties. In addition, compliance with these laws may restrict our ability to provide services to our customers that they may find to be valuable. A determination that there have been violations of laws relating to our practices under communications-based laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business. In particular, because of the enormous number of texts, emails and other communications we send to our users, communications laws that provide a specified monetary damage award or fine for each violation (such as those described below) could result in particularly large awards or fines.



For example, the Federal Communications Commission amended certain of its regulations under the Telephone Consumer Protection Act, or TCPA, in 2012 and 2013 in a manner that could increase our exposure to liability for certain types of telephonic communication with customers, including but not limited to text messages to mobile phones. Under the TCPA, plaintiffs may seek actual monetary loss or statutory damages of \$500 per violation, whichever is greater, and courts may treble the damage award for willful or knowing violations. We are regularly subject to class-action lawsuits, as well as individual lawsuits, containing allegations that our businesses violated the TCPA. These lawsuits, and other private lawsuits not currently alleged as class actions, seek damages (including statutory damages) and injunctive relief, among other remedies. Given the enormous number of communications we send to our users, a determination that there have been violations of the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business. Data collection, privacy and security have become the subject of increasing public concern. If Internet and mobile users were to reduce their use of our websites, mobile platforms, products, and services as a result of these concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

*Other laws and regulations could harm our business.*

It is not always clear how laws and regulations governing matters relevant to our business, such as property ownership, copyrights, trademarks, and other intellectual property issues, parallel imports and distribution controls, taxation, libel and defamation, and obscenity apply to our businesses. Many of these laws were adopted prior to the advent of the Internet, mobile, and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Many of these laws, including some of those that do reference the Internet are subject to interpretation by the courts on an ongoing basis and the resulting uncertainty in the scope and application of these laws and regulations increases the risk that we will be subject to private claims and governmental actions alleging violations of those laws and regulations.

As our activities, the products and services we offer, and our geographical scope continue to expand, regulatory agencies or courts may claim or hold that we or our users are subject to additional requirements (including licensure) or prohibited from conducting our business in their jurisdiction, either generally or with respect to certain actions. Financial and political events have increased the level of regulatory scrutiny on large companies, and regulatory agencies may view matters or interpret laws and regulations differently than they have in the past and in a manner adverse to our businesses. Our success and increased visibility have driven some existing businesses that perceive us to be a threat to their businesses to raise concerns about our business models to policymakers and regulators. These businesses and their trade association groups employ significant resources in their efforts to shape the legal and regulatory regimes in countries where we have significant operations. They may employ these resources in an effort to change the legal and regulatory regimes in ways intended to reduce the effectiveness of our businesses and the ability of users to use our products and services. These established businesses have raised concerns relating to pricing, parallel imports, professional seller obligations, selective distribution networks, stolen goods,

copyrights, trademarks and other intellectual property rights and the liability of the provider of an Internet marketplace for the conduct of its users related to those and other issues. Any changes to the legal or regulatory regimes in a manner that would increase our liability for third-party listings could negatively impact our business.

Numerous U.S. states and foreign jurisdictions, including the State of California, have regulations regarding “auctions” and the handling of property by “secondhand dealers” or “pawnbrokers.” Several states and some foreign jurisdictions have attempted to impose such regulations upon us or our users, and others may attempt to do so in the future. Attempted enforcement of these laws against some of our users appears to be increasing and we could be required to change the way we or our users do business in ways that increase costs or reduce revenues, such as forcing us to prohibit listings of certain items or restrict certain listing formats in some locations. We could also be subject to fines or other penalties, and any of these outcomes could harm our business.

A number of the lawsuits against us relating to trademark issues seek to have our platforms subject to unfavorable local laws. For example, “trademark exhaustion” principles provide trademark owners with certain rights to control the sale of a branded authentic product until it has been placed on the market by the trademark holder or with the holder’s consent. The application of “trademark exhaustion” principles is largely unsettled in the context of the Internet, and if trademark owners are able to force us to prohibit listings of certain items in one or more locations, our business could be harmed.

As we expand and localize our international activities, we are increasingly becoming obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to users worldwide, one or more jurisdictions may claim that we or our users are required to comply with their laws based on the location of our servers or one or more of our users, or the location of the product or service being sold or provided in an ecommerce transaction. For example, we were found liable in France, under French law, for transactions on some of our websites worldwide that did not involve French buyers or sellers. Laws regulating Internet, mobile and ecommerce technologies outside of the United States are generally less favorable to us than those in the United States. Compliance may be more costly or may require us to change our business practices or restrict our service offerings, and the imposition of any regulations on us or our users may harm our business. In addition, we may be subject to multiple overlapping legal or regulatory regimes that impose conflicting requirements on us (e.g., in cross-border trade). Our alleged failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to significant fines to bans on our services, in addition to the significant costs we may incur in defending against such actions.

*We are regularly subject to general litigation, regulatory disputes, and government inquiries.*

We are regularly subject to claims, lawsuits (including class actions and individual lawsuits), government investigations, and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, accessibility claims, securities, tax, labor and employment, commercial disputes, content generated by our users, services and other matters. The number and significance of these disputes and inquiries have increased as our company has grown larger, our businesses have expanded in scope and geographic reach, and our products and services have increased in complexity.

The outcome and impact of such claims, lawsuits, government investigations, and proceedings cannot be predicted with certainty. Regardless of the outcome, such investigations and proceedings can have an adverse impact on us because of legal costs, diversion of management resources, and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that is subject to judgment calls. It is possible that a resolution of one or more such proceedings could require us to make substantial payments to satisfy judgments, fines or penalties or to settle claims or proceedings, any of which could harm our business. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders preventing us from offering certain products, or services, or requiring a change in our business practices in costly ways, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could harm our business.

*We are subject to regulatory activity and antitrust litigation under competition laws.*

We are subject to scrutiny by various government agencies under U.S. and foreign laws and regulations, including competition laws. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies and government agencies have in the past and may in the future allege that our actions violate the antitrust or competition laws of the

United States, individual states, the European Commission or other countries, or otherwise constitute unfair competition. An increasing number of governments are regulating competition law activities, including increased scrutiny in large markets such as China. Our business partnerships or agreements or arrangements with customers or other companies could give rise to regulatory action or antitrust litigation. Some regulators, particularly those outside of the United States, may perceive our business to be used so broadly that otherwise uncontroversial business practices could be deemed anticompetitive. Certain competition authorities have conducted market studies of our industries. Such claims and investigations, even if without foundation, may be very expensive to defend, involve negative publicity and substantial diversion of management time and effort and could result in significant judgments against us or require us to change our business practices.

*We are subject to patent litigation.*

We have repeatedly been sued for allegedly infringing other parties' patents. We are a defendant in a number of patent suits and have been notified of several other potential patent disputes. We expect that we will increasingly be subject to patent infringement claims because, among other reasons:

our products and services continue to expand in scope and complexity;  
we continue to expand into new businesses, including through acquisitions; and  
the universe of patent owners who may claim that we, any of the companies that we have acquired, or our customers infringe their patents, and the aggregate number of patents controlled by such patent owners, continues to increase.

Such claims may be brought directly against us and/or against our customers whom we may indemnify either because we are contractually obligated to do so or we choose to do so as a business matter. We believe that an increasing number of these claims against us and other technology companies have been, and continue to be, initiated by third parties whose sole or primary business is to assert such claims. In addition, we have seen significant patent disputes between operating companies in some technology industries. Patent claims, whether meritorious or not, are time-consuming and costly to defend and resolve, and could require us to make expensive changes in our methods of doing business, enter into costly royalty or licensing agreements, make substantial payments to satisfy adverse judgments or settle claims or proceedings, or cease conducting certain operations, which would harm our business.

*We are exposed to fluctuations in interest rates.*

Some of our borrowings bear interest at floating rates and we have entered into agreements intended to convert the interest rate on some of our fixed rate debt instruments to floating rates. To the extent that prevailing rates increase, our interest expense under these debt instruments will increase.

Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate investment securities may be adversely impacted due to a rise in interest rates. In general, fixed-rate securities with longer maturities are subject to greater interest-rate risk than those with shorter maturities. While floating rate securities generally are subject to less interest-rate risk than fixed-rate securities, floating-rate securities may produce less income than expected if interest rates decrease and may also suffer a decline in market value if interest rates increase. Due in part to these factors, our investment income may decline or we may suffer losses in principal if securities are sold that have declined in market value due to changes in interest rates. In addition, relatively low interest rates limit our investment income. Fluctuations in interest rates that increase the cost of our current or future indebtedness, cause the market value of our assets to decline or reduce our investment income could adversely affect our financial results.

*Our tickets business is subject to regulatory, competitive and other risks that could harm this business.*

Our tickets business, which includes StubHub, is subject to numerous risks, including:

Some jurisdictions, in particular jurisdictions outside the United States, prohibit the resale of event tickets (anti-scalping laws) at prices above the face value of the tickets or at all, or highly regulate the resale of tickets, and new laws and regulations or changes to existing laws and regulations imposing these or other restrictions could limit or inhibit our ability to operate, or our users' ability to continue to use, our tickets business.

Regulatory agencies or courts may claim or hold that we are responsible for ensuring that our users comply with these laws and regulations.

In many jurisdictions, our tickets business depends on commercial partnerships with event organizers or licensed ticket vendors, which we must develop and maintain on acceptable terms for our tickets business to be successful.

Our tickets business is subject to seasonal fluctuations and the general economic and business conditions that impact the sporting events and live entertainment industries.

A portion of the tickets inventory sold by sellers on the StubHub platform is processed by StubHub in digital form. Systems failures, security breaches, theft or other disruptions that result in the loss of such sellers' tickets inventory, could result in significant costs and a loss of consumer confidence in our tickets business.

Lawsuits alleging a variety of causes of actions have in the past, and may in the future, be filed against StubHub and eBay by venue owners, competitors, ticket buyers, and unsuccessful ticket buyers. Such lawsuits could result in significant costs and require us to change our business practices in ways that negatively affect our tickets business.

Our tickets business also faces significant competition from a number of sources, including ticketing service companies, event organizers, ticket brokers, and online and offline ticket resellers. Some ticketing service companies, event organizers, and professional sports teams have begun to issue event tickets through various forms of electronic ticketing systems that are designed to restrict or prohibit the transferability (and by extension, the resale) of such event tickets either to favor their own resale affiliates or to discourage resale or restrict resale of season tickets to a preferred, designated website. Ticketing service companies have also begun to use market-based pricing strategies or dynamic pricing to charge much higher prices, and impose additional restrictions on transferability, for premium tickets.

- Some sports teams have threatened to revoke the privileges of season ticket owners if they resell their tickets through a platform that is not affiliated with, or approved by, such sports teams.

*The listing or sale by our users of items that allegedly infringe the intellectual property rights of rights owners, including pirated or counterfeit items, may harm our business.*

The listing or sale by our users of unlawful, counterfeit or stolen goods or unlawful services, or sale of goods or services in an unlawful manner, has resulted and may continue to result in allegations of civil or criminal liability for unlawful activities against us (including the employees and directors of our various entities) involving activities carried out by users through our services. In a number of circumstances, third parties, including government regulators and law enforcement officials, have alleged that our services aid and abet violations of certain laws, including laws regarding the sale of counterfeit items, laws restricting or prohibiting the transferability (and by extension, the resale) of digital goods (e.g., event tickets, books, music and software), the fencing of stolen goods, selective distribution channel laws, customs laws, distance selling laws, anti-scalping laws with respect to the resale of tickets, and the sale of items outside of the United States that are regulated by U.S. export controls.

In addition, allegations of infringement of intellectual property rights, including but not limited to counterfeit items, have resulted in threatened and actual litigation from time to time by rights owners, including the following luxury brand owners: Tiffany & Co. in the United States; Rolex S.A. and Coty Prestige Lancaster Group GmbH in Germany; Louis Vuitton Malletier and Christian Dior Couture in France; and L'Oréal SA, Lancôme Parfums et Beauté & Cie, and Laboratoire Garnier & Cie in several European countries. Plaintiffs in these and similar suits seek, among other remedies, injunctive relief and damages. Statutory damages for copyright or trademark violations could range up to \$150,000 per copyright violation and \$2,000,000 per trademark violation in the United States, and may be even higher in other jurisdictions. In the past, we have paid substantial amounts in connection with resolving certain trademark and copyright suits. These and similar suits may also force us to modify our business practices in a manner that increases costs, lowers revenue, makes our websites and mobile platforms less convenient to customers, and requires us to spend substantial resources to take additional protective measures or discontinue certain service offerings in order to combat these practices. In addition, we have received significant media attention relating to the listing or sale of illegal or counterfeit goods, which could damage our reputation, diminish the value of our brand names, and make users reluctant to use our products and services.

*We are subject to risks associated with information disseminated through our services.*

Online services companies may be subject to claims relating to information disseminated through their services, including claims alleging defamation, libel, breach of contract, invasion of privacy, negligence,

copyright or trademark infringement, among other things. The laws relating to the liability of online services companies for information disseminated through their services are subject to frequent challenges both in the United States and foreign jurisdictions. Any liabilities incurred as a result of these matters could require us to incur additional costs and harm our reputation and our business.

Our potential liability to third parties for the user-provided content on our sites, particularly in jurisdictions outside the United States where laws governing Internet transactions are unsettled, may increase. If we become liable for information provided by our users and carried on our service in any jurisdiction in which we operate, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability, including expending substantial resources or discontinuing certain service offerings, which could harm our business.



*Changes to our programs to protect buyers and sellers could increase our costs and loss rate.*

Our eBay Money Back Guarantee program represents the means by which we compensate users who believe that they have been defrauded, have not received the item that they purchased or have received an item different from what was described. We expect to continue to receive communications from users requesting reimbursement or threatening or commencing legal action against us if no reimbursement is made. Our liability for these sort of claims is slowly beginning to be clarified in some jurisdictions and may be higher in some non-U.S. jurisdictions than it is in the United States. Litigation involving liability for any such third-party actions could be costly and time consuming for us, divert management attention, result in increased costs of doing business, lead to adverse judgments or settlements or otherwise harm our business. In addition, affected users will likely complain to regulatory agencies that could take action against us, including imposing fines or seeking injunctions.

*We may be unable to adequately protect or enforce our intellectual property rights, or third parties may allege that we are infringing their intellectual property rights.*

We believe the protection of our intellectual property, including our trademarks, patents, copyrights, domain names, trade dress, and trade secrets, is critical to our success. We seek to protect our intellectual property rights by relying on applicable laws and regulations in the United States and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights when offering or procuring products and services, including confidentiality and invention assignment agreements entered into with our employees and contractors and confidentiality agreements with parties with whom we conduct business.

However, effective intellectual property protection may not be available in every country in which our products and services are made available, and contractual arrangements and other steps we have taken to protect our intellectual property may not prevent third parties from infringing or misappropriating our intellectual property or deter independent development of equivalent or superior intellectual property rights by others. Trademark, copyright, patent, domain name, trade dress and trade secret protection is very expensive to maintain and may require litigation. We must protect our intellectual property rights and other proprietary rights in an increasing number of jurisdictions, a process that is expensive and time consuming and may not be successful in every jurisdiction. Also, we may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. Any failure to adequately protect or enforce our intellectual property rights, or significant costs incurred in doing so, could materially harm our business.

As the number of products in the software industry increases and the functionality of these products further overlap, and as we acquire technology through acquisitions or licenses, we may become increasingly subject to infringement claims, including patent, copyright, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the patent and other intellectual property rights of others. The ultimate outcome of any allegation is uncertain and, regardless of the outcome, any such claim, with or without merit, may be time-consuming, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay roll-out, or redesign our products, or require us to pay substantial amounts to satisfy judgments or settle claims or lawsuits or to pay substantial royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation or claims arising out of intellectual property matters,

may harm our business.

*Failure to deal effectively with fraudulent activities on our platforms would increase our loss rate and harm our business, and could severely diminish merchant and consumer confidence in and use of our services.*

We face risks with respect to fraudulent activities on our platforms and periodically receive complaints from buyers and sellers who may not have received the goods that they had contracted to purchase or payment for the goods that a buyer had contracted to purchase. In some European and Asian jurisdictions, buyers may also have the right to withdraw from a sale made by a professional seller within a specified time period. While we can, in some cases, suspend the accounts of users who fail to fulfill their payment or delivery obligations to other users, we do not have the ability to require users to make payment or deliver goods, or otherwise make users whole other than through its buyer protection program, which in the United States we refer to as the eBay Money Back Guarantee. Although we have

implemented measures to detect and reduce the occurrence of fraudulent activities, combat bad buyer experiences and increase buyer satisfaction, including evaluating sellers on the basis of their transaction history and restricting or suspending their activity, there can be no assurance that these measures will be effective in combating fraudulent transactions or improving overall satisfaction among sellers, buyers, and other participants. Additional measures to address fraud could negatively affect the attractiveness of our services to buyers or sellers, resulting in a reduction in the ability to attract new users or retain current users, damage to our reputation, or a diminution in the value of our brand names.

*We have substantial indebtedness, and we may incur substantial additional indebtedness in the future, and we may not generate sufficient cash flow from our business to service our indebtedness. Failure to comply with the terms of our indebtedness could result in the acceleration of our indebtedness, which could have an adverse effect on our cash flow and liquidity.*

We have a substantial amount of outstanding indebtedness and we may incur substantial additional indebtedness in the future, including under our commercial paper program and revolving credit facility or through public or private offerings of debt securities. Our outstanding indebtedness and any additional indebtedness we incur may have significant consequences, including, without limitation, any of the following:

- requiring us to use a significant portion of our cash flow from operations and other available cash to service our indebtedness, thereby reducing the amount of cash available for other purposes, including capital expenditures and acquisitions;
- our indebtedness and leverage may increase our vulnerability to downturns in our business, to competitive pressures, and to adverse changes in general economic and industry conditions;
- adverse changes in the ratings assigned to our debt securities by credit rating agencies will likely increase our borrowing costs;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, share repurchases or other general corporate and other purposes may be limited; and
- our flexibility in planning for, or reacting to, changes in our business and our industry may be limited.

Our ability to make payments of principal of and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our condensed consolidated results of operations and financial condition, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things:

- incur the tax cost of repatriating funds to the United States;
- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets; or
- reduce or delay planned capital or operating expenditures.

Such measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms or at all.

Our revolving credit facility and the indenture pursuant to which certain of our outstanding debt securities were issued contain, and any debt instruments we enter into in the future may contain, financial and other covenants that restrict or could restrict, among other things, our business and operations. If we fail to pay amounts due under, or breach any of the covenants in, a debt instrument, then the lenders would typically

have the right to demand immediate repayment of all borrowings thereunder (subject in certain cases to grace or cure period). Moreover, any such acceleration and required repayment of or default in respect of any of our indebtedness could, in turn, constitute an event of default under other debt instruments, thereby resulting in the acceleration and required repayment of that other indebtedness. Any of these events could materially adversely affect our liquidity and financial condition.

*A downgrade in our credit ratings could materially adversely affect our business.*

Some of our outstanding indebtedness has received credit ratings from certain rating agencies. Such ratings are limited in scope and do not purport to address all risks relating to an investment in those debt securities, but rather reflect only the view of each rating agency at the time the rating was issued. The credit ratings assigned to our debt securities could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and there can be no assurance that such ratings will not be lowered, suspended or withdrawn entirely by a rating agency or placed on a so-called “watch list” for a possible downgrade or assigned a negative ratings outlook if, in any rating agency’s judgment, circumstances so warrant. Moreover, these credit ratings are not recommendations to buy, sell or hold any of our debt securities. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under review for a downgrade or have been assigned a negative outlook, would likely increase our borrowing costs, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows and could harm our business.

Our credit ratings were downgraded as a result of the distribution of 100% of the outstanding common stock of PayPal to our stockholders (the “Distribution”), pursuant to which PayPal became an independent company. As of January 1, 2014, our long-term debt and short-term funding were rated investment grade by Standard and Poor’s Financial Services, LLC (long-term rated A, short-term rated A-1, with a stable outlook), Moody’s Investor Service (long-term rated A2, short-term rated P-1, with a stable outlook), and Fitch Ratings, Inc. (long-term rated A, short-term rated F-1, with a stable outlook). All of these credit rating agencies lowered their ratings in connection with the Distribution, which occurred on July 17, 2015. Since July 20, 2015, we have been rated investment grade by Standard and Poor’s Financial Services, LLC (long-term rated BBB+, short-term rated A-2, with a stable outlook), Moody’s Investor Service (long-term rated Baa1, short-term rated P-2, with a stable outlook), and Fitch Ratings, Inc. (long-term rated BBB, short-term rated F-2, with a stable outlook). We disclose these ratings to enhance the understanding of our sources of liquidity and the effects of these ratings on our costs of funds. Our borrowing costs depend, in part, on our credit ratings and any further actions taken by these credit rating agencies to lower our credit ratings, as described above, will likely increase our borrowing costs.

*Our business may be subject to sales and other taxes.*

The application of indirect taxes (such as sales and use tax, value-added tax (“VAT”), goods and services tax, business tax and gross receipt tax) to ecommerce businesses is a complex and evolving issue. Many of the fundamental statutes and regulations that impose these taxes were established before the adoption and growth of the Internet and ecommerce. In many cases, it is not clear how existing statutes apply to ecommerce services. In addition, many state and foreign governments are increasingly looking for ways to increase revenues, which has resulted in legislative action, including new taxes on services or gross revenues and through other indirect taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain.

From time to time, some taxing authorities in the United States have notified us that they believe we owe them certain taxes imposed on our services. These notifications have not resulted in any significant tax liabilities to date, but there is a risk that some jurisdiction may be successful in the future, which would harm our business.

Similar issues exist outside of the United States, where the application of VAT or other indirect taxes on ecommerce providers is complex and evolving. While we attempt to comply in those jurisdictions where it is clear that a tax is due, some of our subsidiaries have, from time to time, received claims relating to the applicability of indirect taxes to our fees. Additionally, we pay input VAT on applicable taxable purchases

within the various countries in which we operate. In most cases, we are entitled to reclaim this input VAT from the various countries. However, because of our unique business model, the application of the laws and rules that allow such reclamation is sometimes uncertain. A successful assertion by one or more countries that we are not entitled to reclaim VAT could harm our business.

In certain jurisdictions, we collect and remit indirect taxes on our fees and pay taxes on our purchases of goods and services. However, tax authorities may raise questions about our calculation, reporting and collection of these taxes and may ask us to remit additional taxes. Should any new taxes become applicable to our services or if the taxes we pay are found to be deficient, our business could be harmed.

*We may have exposure to greater than anticipated tax liabilities.*

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign jurisdictions and have structured our operations to reduce our effective tax rate. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing a number of investigations, audits and reviews by taxing authorities throughout the world, including with respect to our business structure. Any adverse outcome of any such audit or review could harm our business, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient.

In addition, our future income taxes could be adversely affected by a shift in our jurisdictional earning mix, by changes in the valuation of our deferred tax assets and liabilities, as a result of gains on our foreign exchange risk management program, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

In light of continuing fiscal challenges in certain U.S. states and in many countries in Europe, various levels of government are increasingly focused on tax reform and other legislative action to increase tax revenue, including corporate income taxes. A number of U.S. states have attempted to increase corporate tax revenues by taking an expansive view of corporate presence to attempt to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state, and taxing authorities in foreign jurisdictions may take similar actions. Many U.S. states are also altering their apportionment formulas to increase the amount of taxable income or loss attributable to their state from certain out-of-state businesses. Similarly, in Europe, and elsewhere in the world, there are various tax reform efforts underway designed to ensure that corporate entities are taxed on a larger percentage of their earnings. Companies that operate over the Internet, such as eBay, are a target of some of these efforts. If more taxing authorities are successful in applying direct taxes to Internet companies that do not have a physical presence in their respective jurisdictions, this could increase our effective tax rate.

*Our business and its users are subject to Internet sales tax and sales reporting and record-keeping obligations*

The application of sales tax and other indirect taxes on cross border sales by remote sellers is continuing to change and evolve. On June 21, 2018, the U.S. Supreme Court decided *South Dakota v. Wayfair, Inc. et al*, a case challenging the current law under which online retailers are not required to collect sales and use tax unless they have a physical presence in the buyer's state. This decision will now allow states to adopt new or enforce existing laws requiring sellers to collect and remit sales and use tax, even in states in which the seller has no presence. The adoption or enforcement of any such legislation could result in a sales and use tax collection responsibility for certain of our sellers. This collection responsibility and the additional costs associated with complex sales and use tax collection, remittance and audit requirements could create additional burdens for buyers and sellers on our websites and mobile platforms and could harm our business. Similar laws imposing tax collection responsibility on foreign sellers are being considered in other countries as well. We are now jointly liable for UK VAT for certain non-UK sellers who fail to fulfill their UK VAT obligations unless we suspend their eBay activity until the seller resolves the matter with the UK VAT

authority. Other jurisdictions are considering similar legislation.

Some jurisdictions have enacted laws which require marketplaces to report user activity or collect and remit taxes on certain items sold on the marketplace. For example, we are collecting Australian GST on certain imports into Australia and remitting the GST to the Australian Tax Office. Several U.S. states have enacted laws that require marketplace facilitators to collect and remit sales tax for some or all sellers using these marketplaces. The cost of complying with these new rules and the addition of taxes on certain items may harm our business.

One or more states, the U.S. federal government or foreign countries may seek to impose reporting or record-keeping obligations on companies that engage in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance or if one of our companies was ever deemed to be the legal agent of the users of our services by a jurisdiction in which it operates. Certain of our companies are required to report to the IRS and most states on customers subject to U.S. income tax if they reach certain payment thresholds. As a result, we are required to request tax identification numbers from certain payees, track payments by tax identification number



and, under certain conditions, withhold a portion of payments and forward such withholding to the IRS. Our systems are able to meet these requirements. These obligations can increase operational costs and change our user experience. Any failure by us to meet these requirements could result in substantial monetary penalties and other sanctions and could harm our business. Imposition of an information reporting requirement could decrease seller or buyer activity on our sites and would harm our business.

We have periodically received requests from tax authorities for information regarding the transactions of large classes of sellers on our sites, and in some cases we have been legally obligated to provide this data. The imposition of any requirements on us to disclose transaction records for all or a class of sellers to tax or other regulatory authorities or to file tax forms on behalf of any sellers, especially requirements that are imposed on us but not on alternative means of ecommerce, and any use of those records to investigate, collect taxes from or prosecute sellers or buyers, could decrease activity on our sites and harm our business.

*Our business is subject to online security risks, including security breaches and cyberattacks.*

Our businesses involve the storage and transmission of users' personal financial information. In addition, a significant number of our users authorize us to bill their payment card accounts directly for all transaction and other fees charged by us. An increasing number of websites, including those owned by several other large Internet and offline companies, have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their websites or infrastructure. The techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems, change frequently, may be difficult to detect for a long time, and often are not recognized until launched against a target. Certain efforts may be state sponsored and supported by significant financial and technological resources and therefore may be even more difficult to detect. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving our employees, contractors and temporary staff. A party that is able to circumvent our security measures could misappropriate our or our users' personal information, cause interruption or degradations in our operations, damage our computers or those of our users, or otherwise damage our reputation. In addition, our users have been and likely will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate user names, passwords, payment card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to our users' computers. Our information technology and infrastructure may be vulnerable to cyberattacks or security incidents and third parties may be able to access our users' proprietary information and payment card data that are stored on or accessible through our systems. Any security breach at a company providing services to us or our users could have similar effects.

In May 2014, we publicly announced that criminals were able to penetrate and steal certain data, including user names, encrypted user passwords and other non-financial user data. Upon making this announcement, we required all buyers and sellers on our platform to reset their passwords in order to log into their account. The breach and subsequent password reset have negatively impacted the business. In July 2014, a putative class action lawsuit was filed against us for alleged violations and harm resulting from the breach. The lawsuit was recently dismissed with leave to amend. In addition, we have received requests for information and are subject to investigations regarding this incident from numerous regulatory and other government agencies across the world.

We may also need to expend significant additional resources to protect against security breaches or to redress problems caused by breaches. These issues are likely to become more difficult and costly as we

expand the number of markets where we operate. Additionally, our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches and we may not be able to fully collect, if at all, under these insurance policies.

*Systems failures or cyberattacks and resulting interruptions in the availability of or degradation in the performance of our websites, applications, products or services could harm our business.*

Our systems may experience service interruptions or degradation due to of hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses, or other events. Our systems are also subject to break-ins, sabotage and intentional acts

of vandalism. Some of our systems are not fully redundant and our disaster recovery planning is not sufficient for all eventualities.

We have experienced and will likely continue to experience system failures, denial of service attacks and other events or conditions from time to time that interrupt the availability or reduce the speed or functionality of our websites and mobile applications. These events have resulted and likely will result in loss of revenue. A prolonged interruption in the availability or reduction in the speed or other functionality of our websites and mobile applications could materially harm our business. Frequent or persistent interruptions in our services could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our sites, and could permanently harm our reputation and brands. Moreover, to the extent that any system failure or similar event results in damages to our customers or their businesses, these customers could seek significant compensation from us for their losses and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address. We also rely on facilities, components and services supplied by third parties and our business may be materially adversely affected to the extent these components or services do not meet our expectations or these third parties cease to provide the services or facilities. In particular, a decision by any of our third party hosting providers to close a facility that we use could cause system interruptions and delays, result in loss of critical data and cause lengthy interruptions in our services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of systems failures and similar events.

*Acquisitions, dispositions, joint ventures, strategic partnerships, and strategic investments could result in operating difficulties and could harm our business or impact our financial results.*

We have acquired a significant number of businesses of varying size and scope, technologies, services, and products and have in July 2015 distributed 100% of the outstanding common stock of PayPal to our stockholders, pursuant to which PayPal became an independent company, and sold our Enterprise business in November 2015. We also expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions, and dispositions of businesses, technologies, services, products, and other assets, as well as strategic investments and joint ventures.

These transactions may involve significant challenges and risks, including:

- the potential loss of key customers, merchants, vendors and other key business partners of the companies we acquire, or dispose of, following and continuing after announcement of our transaction plans;
- declining employee morale and retention issues affecting employees of companies that we acquire or dispose of, which may result from changes in compensation, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- difficulty making new and strategic hires of new employees;
- diversion of management time and a shift of focus from operating the businesses to the transaction, and in the case of an acquisition, integration and administration;
- the need to provide transition services to a disposed of company, which may result in the diversion of resources and focus;
- the need to integrate the operations, systems (including accounting, management, information, human resource and other administrative systems), technologies, products and personnel of each acquired company, which is an inherently risky and potentially lengthy and costly process;
- the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise as a result;

the need to implement or improve controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition may have lacked such controls, procedures and policies or whose controls, procedures and policies did not meet applicable legal and other standards;

risks associated with our expansion into new international markets;

derivative lawsuits resulting from the acquisition or disposition;

liability for activities of the acquired or disposed of company before the transaction, including intellectual property and other litigation claims or disputes, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities and, in the case of dispositions, liabilities to the acquirors of those businesses under contractual provisions such as representations, warranties and indemnities;

the potential loss of key employees following the transaction;

the acquisition of new customer and employee personal information by us or a third party acquiring assets or businesses from us, which in and of itself may require regulatory approval and or additional controls, policies and procedures and subject us to additional exposure; and our dependence on the acquired business' accounting, financial reporting, operating metrics and similar systems, controls and processes and the risk that errors or irregularities in those systems, controls and processes will lead to errors in our condensed consolidated financial statements or make it more difficult to manage the acquired business.

At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions and any of these transactions could be material to our financial condition and results of operations. In addition, it may take us longer than expected to fully realize the anticipated benefits of these transactions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results. Any acquisitions or dispositions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), liabilities, and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders.

We have made certain investments, including through joint ventures, in which we have a minority equity interest and/or lack management and operational control. The controlling joint venture partner in a joint venture may have business interests, strategies, or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture. Our strategic investments may also expose us to additional risks. Any circumstances, which may be out of our control, that adversely affect the value of our investments, or cost resulting from regulatory action or lawsuits in connection with our investments, could harm our business or negatively impact our financial results.

In connection with a strategic partnership agreement, we entered into a warrant agreement with a service provider that entitles us to acquire a fixed number of shares of the service provider's common stock subject to certain milestones being met. This warrant is accounted for as a derivative instrument under ASC Topic 815, *Derivatives and Hedging*. Changes in the service provider's common stock price and equity volatility may have a significant impact on the value of this warrant. We report this warrant on a quarterly basis at fair value in our condensed consolidated balance sheets, and changes in the fair value of this warrant are recognized in our condensed consolidated statement of income. Fluctuations in the service provider's common stock could result in material changes in the fair value that we report in our condensed consolidated balance sheets and our condensed consolidated statement of income, which could have a material impact on our financial results.

*Our success largely depends on key personnel. Because competition for our key employees is intense, we may not be able to attract, retain, and develop the highly skilled employees we need to support our business. The loss of senior management or other key personnel could harm our business.*

Our future performance depends substantially on the continued services of our senior management and other key personnel, including key engineering and product development personnel, and our ability to attract, retain, and motivate key personnel. Competition for key personnel is intense, especially in the Silicon Valley where our corporate headquarters are located, and we may be unable to successfully attract, integrate, or retain sufficiently qualified key personnel. In making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the equity awards they

would receive in connection with their employment and fluctuations in our stock price may make it more difficult to attract, retain, and motivate employees. In addition, we do not have long-term employment agreements with any of our key personnel and do not maintain any “key person” life insurance policies. The loss of the services of any of our senior management or other key personnel, or our inability to attract highly qualified senior management and other key personnel, could harm our business.

*Problems with or price increases by third parties who provide services to us or to our sellers could harm our business.*

A number of third parties provide services to us or to our sellers. Such services include seller tools that automate and manage listings, merchant tools that manage listings and interface with inventory management software, storefronts that help our sellers list items and shipping providers that deliver goods sold on our platform, among others. Financial or regulatory issues, labor issues (e.g., strikes, lockouts, or work stoppages), or other problems that prevent these companies from providing services to us or our sellers could harm our business.

Price increases by, or service terminations, disruptions or interruptions at, companies that provide services to us and our sellers and clients could also reduce the number of listings on our platforms or make it more difficult for our sellers to complete transactions, thereby harming our business. Some third parties who provide services to us or our sellers may have or gain market power and be able to increase their prices to us without competitive constraint. While we continue to work with global carriers to offer our sellers a variety of shipping options and to enhance their shipping experience, postal rate increases may reduce the competitiveness of certain sellers' offerings, and postal service changes could require certain sellers to utilize alternatives which could be more expensive or inconvenient, which could in turn decrease the number of transactions on our sites, thereby harming our business.

We have outsourced certain functions to third-party providers, including some customer support and product development functions, which are critical to our operations. If our service providers do not perform satisfactorily, our operations could be disrupted, which could result in user dissatisfaction and could harm our business.

There can be no assurance that third parties who provide services directly to us or our sellers will continue to do so on acceptable terms, or at all. If any third parties were to stop providing services to us or our sellers on acceptable terms, including as a result of bankruptcy, we may be unable to procure alternatives from other third parties in a timely and efficient manner and on acceptable terms, or at all.

*Our developer platforms, which are open to merchants and third-party developers, subject us to additional risks.*

We provide third-party developers with access to application programming interfaces, software development kits and other tools designed to allow them to produce applications for use, with a particular focus on mobile applications. There can be no assurance that merchants or third-party developers will develop and maintain applications and services on our open platforms on a timely basis or at all, and a number of factors could cause such third-party developers to curtail or stop development for our platforms. In addition, our business is subject to many regulatory restrictions. It is possible that merchants and third-party developers who utilize our development platforms or tools could violate these regulatory restrictions and we may be held responsible for such violations, which could harm our business.

*We could incur significant liability if the Distribution is determined to be a taxable transaction.*

We have received an opinion from outside tax counsel to the effect that the Distribution qualifies as a transaction that is described in Sections 355 and 368(a)(1)(D) of the Internal Revenue Code. The opinion relies on certain facts, assumptions, representations and undertakings from PayPal and us regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, our shareholders and we may

not be able to rely on the opinion of tax counsel and could be subject to significant tax liabilities. Notwithstanding the opinion of tax counsel we have received, the IRS could determine on audit that the Distribution is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion. If the Distribution is determined to be taxable for U.S. federal income tax purposes, our shareholders that are subject to U.S. federal income tax and we could incur significant U.S. federal income tax liabilities.

*We may be exposed to claims and liabilities as a result of the Distribution.*

We entered into a separation and distribution agreement and various other agreements with PayPal to govern the Distribution and the relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us and PayPal. The indemnity rights we have against PayPal under the agreements may not be sufficient to protect us. In addition, our indemnity obligations to PayPal may be significant and these risks could negatively affect our results of operations and financial condition.



**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

Stock repurchase activity during the three months ended September 30, 2018 was as follows:

Period Ended	Total Number of Shares Purchased	Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet be Purchased Under the Programs <sup>(1)</sup>
July 31, 2018	8,190,690	\$ 33.94	8,190,690	
August 31, 2018	18,245,176	\$ 34.09	18,245,176	
September 30, 2018	2,945,694	\$ 33.95	2,945,694	\$4,650,996,317
	29,381,560		29,381,560	

<sup>(1)</sup> In July 2017, our Board authorized a \$3.0 billion stock repurchase program and in January 2018 our Board authorized an additional \$6.0 billion stock repurchase program. These stock repurchase programs have no expiration from the date of authorization.

Our stock repurchase programs are intended to programmatically offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic and programmatic repurchases of our common stock to reduce our outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives.

During the three months ended September 30, 2018, we repurchased approximately \$1 billion of our common stock under our stock repurchase program. As of September 30, 2018, a total of approximately \$4.7 billion remained available for future repurchases of our common stock under our stock repurchase program.

We expect, subject to market conditions and other uncertainties, to continue making opportunistic and programmatic repurchases of our common stock. However, our stock repurchase programs may be limited or terminated at any time without prior notice. The timing and actual number of shares repurchased will depend on a variety of factors, including corporate and regulatory requirements, price and other market conditions and management's determination as to the appropriate use of our cash.

<sup>(2)</sup> Excludes broker commissions.

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: Mine Safety Disclosures**

Not applicable.

**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

The information required by this Item is set forth in the Index to Exhibits of this Quarterly Report.

## INDEX TO EXHIBITS

### Exhibit Number Description

<u>12.01</u>	<u>Statement regarding computation of ratio of earnings to fixed charges.</u>
<u>31.01</u>	<u>Certification of Registrant's Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.02</u>	<u>Certification of Registrant's Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.01</u>	<u>Certification of Registrant's Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.02</u>	<u>Certification of Registrant's Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

eBay Inc.  
Principal Executive Officer:

By: /s/ Devin N. Wenig  
**Devin N. Wenig**  
**President and Chief Executive Officer**

Date: October 31, 2018

Principal Financial Officer:

By: /s/ Scott F. Schenkel  
**Scott F. Schenkel**  
**Senior Vice President, Chief Financial Officer**

Date: October 31, 2018

Principal Accounting Officer:

By: /s/ Brian J. Doerger  
**Brian J. Doerger**  
**Vice President, Chief Accounting Officer**

Date: October 31, 2018