

EBAY INC
Form 10-Q
October 20, 2016

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, 2016

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)

2065 Hamilton Avenue
San Jose, California
(Address of principal executive offices) (Zip Code)
(408) 376-7400
(Registrant's telephone number, including area code)

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

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 18, 2016, there were 1,117,926,440 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, 2016 | December 31, 2015 |
|--|--|----------------------|
| | (In millions, except par value) (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,753 | \$ 1,832 |
| Short-term investments | 6,292 | 4,299 |
| Accounts receivable, net | 626 | 619 |
| Other current assets | 1,112 | 1,154 |
| Total current assets | 9,783 | 7,904 |
| Long-term investments | 3,921 | 3,391 |
| Property and equipment, net | 1,526 | 1,554 |
| Goodwill | 4,727 | 4,451 |
| Intangible assets, net | 117 | 90 |
| Other assets | 428 | 365 |
| Total assets | \$ 20,502 | \$ 17,755 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$ 1,449 | \$ — |
| Accounts payable | 278 | 349 |
| Accrued expenses and other current liabilities | 1,813 | 1,736 |
| Deferred revenue | 116 | 106 |
| Income taxes payable | 107 | 72 |
| Total current liabilities | 3,763 | 2,263 |
| Deferred and other tax liabilities, net | 2,268 | 2,092 |
| Long-term debt | 7,582 | 6,749 |
| Other liabilities | 70 | 75 |
| Total liabilities | 13,683 | 11,179 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value; 3,580 shares authorized; 1,117 and 1,184 shares outstanding | 2 | 2 |
| Additional paid-in capital | 14,782 | 14,538 |
| Treasury stock at cost, 523 and 443 shares | (18,205 |) (16,203) |
| Retained earnings | 9,036 | 7,713 |
| Accumulated other comprehensive income | 1,204 | 526 |
| Total stockholders' equity | 6,819 | 6,576 |
| Total liabilities and stockholders' equity | \$ 20,502 | \$ 17,755 |

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, 2016 | | Nine Months Ended September 30, 2015 | |
|--|--|---------|---|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions, except per share amounts) (Unaudited) | | | |
| Net revenues | \$2,217 | \$2,099 | \$6,584 | \$6,270 |
| Cost of net revenues | 498 | 433 | 1,468 | 1,278 |
| Gross profit | 1,719 | 1,666 | 5,116 | 4,992 |
| Operating expenses: | | | | |
| Sales and marketing | 600 | 565 | 1,760 | 1,672 |
| Product development | 288 | 241 | 822 | 694 |
| General and administrative | 224 | 207 | 651 | 862 |
| Provision for transaction losses | 56 | 65 | 172 | 199 |
| Amortization of acquired intangible assets | 9 | 10 | 24 | 30 |
| Total operating expenses | 1,177 | 1,088 | 3,429 | 3,457 |
| Income from operations | 542 | 578 | 1,687 | 1,535 |
| Interest and other, net | (9) | 87 | (40) | 221 |
| Income from continuing operations before income taxes | 533 | 665 | 1,647 | 1,756 |
| Provision for income taxes | (115) | (120) | (310) | (332) |
| Income from continuing operations | \$418 | \$545 | \$1,337 | \$1,424 |
| Loss from discontinued operations, net of income taxes | (5) | (6) | (7) | (176) |
| Net income | \$413 | \$539 | \$1,330 | \$1,248 |
| Income (loss) per share - basic: | | | | |
| Continuing operations | \$0.37 | \$0.45 | \$1.17 | \$1.17 |
| Discontinued operations | — | — | (0.01) | (0.14) |
| Net income per share - basic | \$0.37 | \$0.45 | \$1.16 | \$1.03 |
| Income (loss) per share - diluted: | | | | |
| Continuing operations | \$0.36 | \$0.45 | \$1.16 | \$1.16 |
| Discontinued operations | — | — | (0.01) | (0.14) |
| Net income per share - diluted | \$0.36 | \$0.45 | \$1.15 | \$1.02 |
| Weighted-average shares: | | | | |
| Basic | 1,126 | 1,210 | 1,143 | 1,214 |
| Diluted | 1,139 | 1,223 | 1,153 | 1,226 |

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|--------|---------------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| | (Unaudited) | | | |
| Net income | \$413 | \$539 | \$1,330 | \$1,248 |
| Other comprehensive income (loss), net of reclassification adjustments: | | | | |
| Foreign currency translation gain (loss) | 150 | (182) | 217 | (426) |
| Unrealized gains (losses) on investments, net | 353 | (442) | 657 | (320) |
| Tax benefit (expense) on unrealized gains (losses) on investments, net | (128) | 155 | (229) | 111 |
| Unrealized gains (losses) on hedging activities, net | — | (19) | 33 | (82) |
| Tax benefit (expense) on unrealized gains (losses) on hedging activities, net | — | 1 | — | 1 |
| Other comprehensive income (loss), net of tax | 375 | (487) | 678 | (716) |
| Comprehensive income | \$788 | \$52 | \$2,008 | \$532 |

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Nine Months Ended September 30, 2016 2015 (In millions) (Unaudited) | |
|--|--|----------|
| Cash flows from operating activities: | | |
| Net income | \$1,330 | \$1,248 |
| Loss from discontinued operations, net of income taxes | 7 | 176 |
| Adjustments: | | |
| Provision for transaction losses | 172 | 199 |
| Depreciation and amortization | 506 | 516 |
| Stock-based compensation | 306 | 301 |
| Gain on sale of investments | 25 | (212) |
| Changes in assets and liabilities, and other, net of acquisition effects | (139) | (477) |
| Net cash provided by continuing operating activities | 2,207 | 1,751 |
| Net cash provided by (used in) discontinued operating activities | (1) | 1,242 |
| Net cash provided by operating activities | 2,206 | 2,993 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (490) | (539) |
| Purchases of investments | (7,782) | (4,452) |
| Maturities and sales of investments | 5,929 | 5,579 |
| Acquisitions, net of cash acquired | (201) | (24) |
| Other | (24) | (15) |
| Net cash provided by (used in) continuing investing activities | (2,568) | 549 |
| Net cash used in discontinued investing activities | — | (3,837) |
| Net cash used in investing activities | (2,568) | (3,288) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 67 | 173 |
| Repurchases of common stock | (2,002) | (1,512) |
| Excess tax benefits from stock-based compensation | 9 | 72 |
| Tax withholdings related to net share settlements of restricted stock units and awards | (96) | (226) |
| Proceeds from issuance of long-term debt, net | 2,216 | — |
| Repayment of debt | (17) | (250) |
| Other | 5 | 10 |
| Net cash provided by (used in) continuing financing activities | 182 | (1,733) |
| Net cash used in discontinued financing activities | — | (1,599) |
| Net cash provided by (used in) financing activities | 182 | (3,332) |
| Effect of exchange rate changes on cash and cash equivalents | 101 | (286) |
| Net increase (decrease) in cash and cash equivalents | (79) | (3,913) |
| Cash and cash equivalents at beginning of period | 1,832 | 6,328 |
| Cash and cash equivalents at end of period | \$1,753 | \$2,415 |
| Less: Cash and cash equivalents of held for sale | — | 28 |
| Cash and cash equivalents of continuing operations at end of period | \$1,753 | \$2,387 |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest | \$199 | \$161 |
| Cash paid for income taxes | \$117 | \$240 |

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, including our Marketplace, StubHub and Classifieds platforms. Our Marketplace platforms include our online marketplace located at www.ebay.com, its localized counterparts and the eBay mobile apps. Our StubHub platforms include our online ticket platform located at www.stubhub.com, the StubHub mobile apps and Ticketbis. Our Classifieds platforms include a collection of brands such as Mobile.de, Kijiji, Gumtree, Marktplaats, eBay Classifieds and others.

When we refer to “we,” “our,” “us” or “eBay” in this document, 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, 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 using the cost method of accounting, and our share of the investees’ results of operations is included in our condensed consolidated statement of income to the extent dividends are received.

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, 2015. 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.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recent Accounting Pronouncements

In 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard will replace all current GAAP guidance on this topic and eliminate 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. This guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In 2015, the FASB issued guidance to defer the effective date to fiscal years beginning after December 15, 2017 with early adoption for fiscal years beginning December 15, 2016. 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 are evaluating the impact of adopting the new accounting guidance on our consolidated financial statements and do not intend to early adopt.

In 2015, the FASB issued new guidance related to presentation of debt issuance costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We adopted this standard retrospectively in the first quarter of 2016. The balance sheet as of December 31, 2015 was retrospectively adjusted, which resulted in reductions to other assets of \$30 million and long-term debt of \$30 million.

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. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In 2016, the FASB issued new guidance related to accounting for leases. The new guidance requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In 2016, the FASB issued new guidance to revise aspects of stock-based compensation guidance which include income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Notwithstanding the effects of stock market volatility, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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 consolidated financial statements.

In 2016, the FASB issued new guidance which clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2 — Net Income (loss) 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 periods indicated:

| | Three Months Ended | | Nine Months Ended | |
|--|---|--------------------|--------------------|--------------------|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| | (In millions, except per share amounts) | | | |
| Numerator: | | | | |
| Income from continuing operations | \$418 | \$545 | \$1,337 | \$1,424 |
| Loss from discontinued operations, net of income taxes | (5) | (6) | (7) | (176) |
| Net income | \$413 | \$539 | \$1,330 | \$1,248 |
| Denominator: | | | | |
| Weighted average shares of common stock - basic | 1,126 | 1,210 | 1,143 | 1,214 |
| Dilutive effect of equity incentive awards | 13 | 13 | 10 | 12 |
| Weighted average shares of common stock - diluted | 1,139 | 1,223 | 1,153 | 1,226 |
| Income (loss) per share - basic: | | | | |
| Continuing operations | \$0.37 | \$0.45 | \$1.17 | \$1.17 |
| Discontinued operations | — | — | (0.01) | (0.14) |
| Net income per share - basic | \$0.37 | \$0.45 | \$1.16 | \$1.03 |
| Income (loss) per share - diluted: | | | | |
| Continuing operations | \$0.36 | \$0.45 | \$1.16 | \$1.16 |
| Discontinued operations | — | — | (0.01) | (0.14) |
| Net income per share - diluted | \$0.36 | \$0.45 | \$1.15 | \$1.02 |
| Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive | 1 | 4 | 6 | 2 |

Note 3 — Business Combinations

During the nine months ended September 30, 2016, we completed five acquisitions for an aggregate purchase consideration of approximately \$206 million, consisting of cash. We believe these acquisitions will help us build a better user experience, improve discoverability and grow our international presence. The condensed consolidated financial statements include the operating results of acquired businesses from the date of each acquisition.

The aggregate purchase consideration of \$206 million was allocated as follows: purchased intangible assets of \$70 million, recognized goodwill of \$174 million, and net liabilities of \$40 million. These allocations have been prepared on a preliminary basis and changes to these allocations may occur as additional information becomes available. We generally do not expect goodwill to be deductible for income tax purposes.

Pro forma results of operations for these acquisitions have not been presented because the effect of the acquisitions were not material to our financial results.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4 — Discontinued Operations

On June 26, 2015, our Board of Directors (the “Board”) approved the separation of PayPal through the distribution of 100% of the outstanding common stock of PayPal Holdings, Inc. (“PayPal”) to our stockholders (the “Distribution”). To consummate the Distribution, our Board declared a pro rata dividend of PayPal Holdings, Inc. common stock to eBay’s stockholders of record as of the close of business on July 8, 2015 (the “Record Date”). Each eBay stockholder received one (1) share of PayPal Holdings, Inc. common stock for every share of eBay common stock held at the close of business on the Record Date. The Distribution occurred on July 17, 2015. Immediately following the Distribution, PayPal became an independent, publicly traded company and is listed on The NASDAQ Stock Market under the ticker “PYPL.” eBay continues to trade on The NASDAQ Stock Market under the ticker “EBAY.” We have classified the results of PayPal as discontinued operations in our consolidated statement of income for all periods presented. In connection with the Distribution, we reviewed our capital allocation strategy to ensure that each of PayPal and eBay would be well capitalized at Distribution. Pursuant to the terms of the separation and distribution agreement entered into between us and PayPal on June 26, 2015, upon Distribution, assets related to the PayPal business were transferred to, and liabilities related to the PayPal business were retained or assumed by, PayPal. As part of this strategy, we contributed approximately \$3.8 billion of cash to PayPal in 2015.

During the second quarter of 2015, our Board approved a plan to sell the businesses underlying our former Enterprise segment (“Enterprise”). Based on the expected sales proceeds, we recorded a goodwill impairment of \$786 million in the second quarter of 2015. On July 16, 2015, we signed a definitive agreement to sell Enterprise for \$925 million and on November 2, 2015, the sale closed. We recorded a loss of \$35 million upon closing included within income from discontinued operations, net of income taxes. We have classified the results of Enterprise as discontinued operations in our condensed consolidated statement of income for all periods presented.

The financial results of PayPal and Enterprise are presented as loss from discontinued operations, net of income taxes on our condensed consolidated statement of income. The following table presents the combined financial results of PayPal and Enterprise:

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|--|-------|--|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Net revenues | \$— | \$676 | \$— | \$5,598 |
| Cost of net revenues | — | 362 | — | 2,524 |
| Gross profit | — | 314 | — | 3,074 |
| Operating expenses: | | | | |
| Sales and marketing | — | 71 | — | 628 |
| Product development | — | 71 | — | 619 |
| General and administrative | 13 | 102 | 15 | 859 |
| Provision for transaction and loan losses | — | 34 | — | 427 |
| Amortization of acquired intangible assets | — | 3 | — | 100 |
| Goodwill impairment | — | — | — | 786 |
| Total operating expenses | 13 | 281 | 15 | 3,419 |
| Loss from operations of discontinued operations | (13) | 33 | (15) | (345) |

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| | | | | |
|--|-------|--------|-------|----------|
| Interest and other, net | — | (2) | — | 2 |
| Loss from discontinued operations before income taxes | (13) | 31 | (15) | (343) |
| Income tax benefit/(expense) | 8 | (37) | 8 | 167 |
| Loss from discontinued operations, net of income taxes | \$(5) | \$(6) | \$(7) | \$(176) |

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eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5 — Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and adjustments to those balances during the nine months ended September 30, 2016:

| | December 31, 2015 | Goodwill Acquired | Adjustments | September 30, 2016 |
|----------|-------------------|-------------------|-------------|--------------------|
| | (In millions) | | | |
| Goodwill | \$4,451 | \$ 174 | \$ 102 | \$ 4,727 |

The adjustments to goodwill during the nine months ended September 30, 2016 were due primarily to foreign currency translation.

Intangible Assets

The components of identifiable intangible assets are as follows:

| | September 30, 2016 | | | | December 31, 2015 | | | |
|------------------------------|-----------------------------|--------------------------|---------------------|--------------------------------------|-----------------------|--------------------------|---------------------|--------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Useful Life (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Useful Life (Years) |
| | (In millions, except years) | | | | | | | |
| Intangible assets: | | | | | | | | |
| Customer lists and user base | \$462 | \$ (414) |) \$ 48 | 5 | \$419 | \$ (399) |) \$ 20 | 5 |
| Marketing related | 614 | (595) |) 19 | 5 | 594 | (570) |) 24 | 5 |
| Developed technologies | 265 | (230) |) 35 | 3 | 238 | (215) |) 23 | 4 |
| All other | 152 | (137) |) 15 | 4 | 157 | (134) |) 23 | 4 |
| | \$1,493 | \$ (1,376) |) \$ 117 | | \$1,408 | \$ (1,318) |) \$ 90 | |

Amortization expense for intangible assets was \$15 million and \$18 million for the three months ended September 30, 2016 and 2015, respectively. Amortization expense for intangible assets was \$38 million and \$50 million for the nine months ended September 30, 2016 and 2015, respectively.

Expected future intangible asset amortization as of September 30, 2016 is as follows (in millions):

Fiscal years:

| | |
|----------------|-------|
| Remaining 2016 | \$18 |
| 2017 | 57 |
| 2018 | 27 |
| 2019 | 10 |
| 2020 | 5 |
| Thereafter | — |
| | \$117 |

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6 — 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 periods presented:

| | Three Months | | Nine Months | |
|---|---------------|---------|---------------|---------|
| | Ended | | Ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Net Revenues by Type: | | | | |
| Net transaction revenues: | | | | |
| Marketplace | \$1,484 | \$1,459 | \$4,505 | \$4,519 |
| StubHub | 261 | 200 | 663 | 493 |
| Total net transaction revenues | 1,745 | 1,659 | 5,168 | 5,012 |
| Marketing services and other revenues: | | | | |
| Marketplace | 273 | 266 | 824 | 752 |
| Classifieds | 197 | 178 | 590 | 520 |
| StubHub, Corporate and other | 2 | (4) | 2 | (14) |
| Total marketing services and other revenues | 472 | 440 | 1,416 | 1,258 |
| Total net revenues | \$2,217 | \$2,099 | \$6,584 | \$6,270 |

Note 7 — Investments

As of September 30, 2016 and December 31, 2015, the estimated fair value of our short-term and long-term investments classified as available for sale, were as follows:

| | September 30, 2016 | | | |
|--|----------------------|------------------------|-------------------------|----------------------|
| | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In millions) | | | |
| Short-term investments: | | | | |
| Restricted cash | \$24 | \$ — | \$ — | \$ 24 |
| Corporate debt securities ⁽¹⁾ | 4,763 | 1 | (15) | 4,749 |
| Government and agency securities | 16 | — | — | 16 |
| Equity instruments | 9 | 1,494 | — | 1,503 |
| | \$4,812 | \$ 1,495 | \$ (15) | \$ 6,292 |
| Long-term investments: | | | | |
| Corporate debt securities ⁽¹⁾ | 3,738 | 25 | (4) | 3,759 |
| Government and agency securities | 51 | 1 | — | 52 |
| | \$3,789 | \$ 26 | \$ (4) | \$ 3,811 |

(1) As of September 30, 2016 investment securities with a fair value and a net unrealized foreign exchange loss of \$1.2 billion and \$15 million, respectively, were held by a foreign subsidiary in which the U.S. dollar is not the

functional currency.

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eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | December 31, 2015 | | | |
|----------------------------------|---------------------------------------|------------------------|-------------------------|----------------------|
| | Gross Amortized Cost (In millions) | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Short-term investments: | | | | |
| Restricted cash | \$28 | \$ — | \$ — | \$ 28 |
| Corporate debt securities | 3,302 | 1 | (16) | 3,287 |
| Government and agency securities | 55 | — | — | 55 |
| Equity instruments | 9 | 920 | — | 929 |
| | \$3,394 | \$ 921 | \$ (16) | \$ 4,299 |
| Long-term investments: | | | | |
| Corporate debt securities | 3,327 | 7 | (67) | 3,267 |
| | \$3,327 | \$ 7 | \$ (67) | \$ 3,267 |

As of September 30, 2016, investment securities in a continuous loss position for greater than 12 months had an estimated fair value and unrealized loss of \$255 million and \$2 million, respectively. At December 31, 2015, investment securities in a continuous loss position for greater than 12 months had an estimated fair value and unrealized loss of \$769 million and \$40 million, respectively. Refer to “Note 15 - 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, 2016 are as follows:

| | September 30, 2016 (In millions) |
|--|--|
| One year or less (including restricted cash of \$24) | \$ 4,790 |
| One year through two years | 1,492 |
| Two years through three years | 1,949 |
| Three years through four years | 115 |
| Four years through five years | 223 |
| Five years through six years | 30 |
| Six years through seven years | 1 |
| | \$ 8,600 |

Equity and cost method investments

We have made multiple equity and cost method investments which are reported in long-term investments on our condensed consolidated balance sheet. As of September 30, 2016 and December 31, 2015, our equity and cost method investments totaled \$110 million and \$124 million, respectively. During the second quarter of 2016, we sold a portion of our equity interest in Jasper Infotech Private Limited (Snapdeal). The resulting gain is recorded in interest and other, net on our condensed consolidated statement of income.

Subsequent Event

Subsequent to September 30, 2016, we sold most of our investment in MercadoLibre, Inc. for \$1.2 billion.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8 — Fair Value Measurement of Assets and Liabilities

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

| | Balance as of September 2016 (In millions) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
|----------------------------------|--|---|---|
| Assets: | | | |
| Cash and cash equivalents | \$1,753 | \$ 1,753 | \$ — |
| Short-term investments: | | | |
| Restricted cash | 24 | 24 | — |
| Corporate debt securities | 4,749 | — | 4,749 |
| Government and agency securities | 16 | — | 16 |
| Equity instruments | 1,503 | 1,503 | — |
| Total short-term investments | 6,292 | 1,527 | 4,765 |
| Derivatives | 197 | — | 197 |
| Long-term investments: | | | |
| Corporate debt securities | 3,759 | — | 3,759 |
| Government and agency securities | 52 | — | 52 |
| Total long-term investments | 3,811 | — | 3,811 |
| Total financial assets | \$12,053 | \$ 3,280 | \$ 8,773 |

Liabilities:

| | | | |
|-------------|------|------|-------|
| Derivatives | \$43 | \$ — | \$ 43 |
|-------------|------|------|-------|

| | Balance as of December 2015 (In millions) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
|----------------------------------|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | \$1,832 | \$ 1,664 | \$ 168 |
| Short-term investments: | | | |
| Restricted cash | 28 | 28 | — |
| Corporate debt securities | 3,287 | — | 3,287 |
| Government and agency securities | 55 | — | 55 |
| Equity instruments | 929 | 929 | — |
| Total short-term investments | 4,299 | 957 | 3,342 |
| Derivatives | 97 | — | 97 |
| Long-term investments: | | | |
| Corporate debt securities | 3,267 | — | 3,267 |
| Total long-term investments | 3,267 | — | 3,267 |
| Total financial assets | \$9,495 | \$ 2,621 | \$ 6,874 |

Liabilities:

Derivatives \$25 \$ — \$ 25

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Our financial assets and liabilities are valued using market prices on both active markets (level 1) and less active markets (level 2). 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. 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. We did not have any transfers of financial instruments between valuation levels during the nine months ended September 30, 2016.

Cash and cash equivalents are short-term, highly liquid investments with original or remaining maturities of three months or less when purchased and are comprised primarily of bank deposits, certificates of deposit and commercial paper.

In addition, we had cost and equity method investments of approximately \$110 million and \$124 million included in long-term investments on our condensed consolidated balance sheet at September 30, 2016 and December 31, 2015, respectively.

Our derivative instruments vary in duration depending on contract type. Our foreign exchange derivative contracts are primarily short-term in nature, generally one month to one year in duration. Certain foreign currency contracts designated as cash flow hedges may have a duration of up to 18 months. The duration of our interest rate derivative contracts match the duration of the fixed rate notes due 2019, 2021 and 2024.

As of September 30, 2016 and December 31, 2015, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

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.

Note 9 — Derivative Instruments

Summary of 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. 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.

Foreign Exchange Contracts

We transact business in various foreign currencies and have significant international revenues as well as costs denominated in foreign currencies, which subjects us to foreign currency risk. We use foreign currency exchange contracts, primarily short-term in nature, generally one month to one year in duration but with maturities up to 18

months, to reduce the volatility of cash flows primarily related to forecasted revenues, expenses, assets and liabilities denominated in foreign currencies. 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. For derivative instruments that are designated as cash flow hedges, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings. We evaluate the effectiveness of our foreign exchange contracts on a quarterly basis. We do not use any foreign exchange contracts for trading purposes.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For our derivative instruments designated as cash flow hedges, the amounts recognized in earnings related to the ineffective portion were not material in each of the periods presented, and we did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. As of September 30, 2016, we have estimated that approximately \$64 million of net derivative gains related to our cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

Interest Rate Contracts

In connection with the July 2014 issuance of our fixed rate notes due 2019, 2021 and 2024, we entered into certain interest rate swap agreements that have 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. We have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges. These transactions are characterized 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. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings. We evaluate the effectiveness of our contracts on a quarterly basis. We do not use any interest rate swap agreements for trading purposes.

For our derivative instruments designated as fair value hedges, the amounts recognized in earnings related to the ineffective portion were not material in each of the periods presented, and we did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness.

Fair Value of Derivative Contracts

The fair values of our outstanding derivative instruments as of September 30, 2016 and December 31, 2015 were as follows:

| | Balance Sheet Location | September 30, 2016 | December 31, 2015 |
|--|---------------------------|--------------------|-------------------|
| | | (In millions) | |
| Derivative Assets: | | | |
| Foreign exchange contracts designated as cash flow hedges | Other Current Assets | \$ 80 | \$ 42 |
| Foreign exchange contracts not designated as hedging instruments | Other Current Assets | 18 | 14 |
| Interest rate contracts designated as fair value hedges | Other Assets | 99 | 41 |
| Total derivative assets | | \$ 197 | \$ 97 |
| Derivative Liabilities: | | | |
| Foreign exchange contracts designated as cash flow hedges | Other Current Liabilities | \$ 7 | \$ 1 |
| Foreign exchange contracts not designated as hedging instruments | Other Current Liabilities | 36 | 24 |
| Total derivative liabilities | | \$ 43 | \$ 25 |
| Total fair value of derivative instruments | | \$ 154 | \$ 72 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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, 2016, the potential effect of rights of set-off associated with the foreign exchange contracts discussed above would be an offset to both assets and liabilities by \$36 million, resulting in net derivative assets and net derivative liabilities of \$62 million and \$7 million, respectively. We are not required to pledge, nor are we entitled to receive, collateral related to our foreign exchange derivative transactions. As of September 30, 2016, we had neither pledged nor received collateral related to our interest rate derivative transactions.

Effect of Derivative Contracts on Accumulated Other Comprehensive Income

The following table summarizes the activity of derivative contracts that qualify for hedge accounting as of September 30, 2016 and December 31, 2015, and the impact of these derivative contracts on accumulated other comprehensive income for the nine months ended September 30, 2016:

| | Amount of Gain (Loss) Recognized in December 31, 2015 Comprehensive Income (Effective Portion) (In millions) | Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income to Earnings (Effective Portion) | September 30, 2016 |
|---|---|--|-----------------------|
| Foreign exchange contracts designated as cash flow hedges | \$36 \$ 96 | \$ 63 | \$ 69 |

The following table summarizes the activity of derivative contracts that qualify for hedge accounting as of September 30, 2015 and December 31, 2014, and the impact of these derivative contracts on accumulated other comprehensive income for the nine months ended September 30, 2015:

| | Amount of Gain (Loss) Recognized in December 31, 2014 Comprehensive Income (Effective Portion) (In millions) | Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income to Earnings (Effective Portion) | September 30, 2015 |
|---|---|--|-----------------------|
| Foreign exchange contracts designated as cash flow hedges | \$41 \$ 29 | \$ 51 | \$ 19 |

Effect of Derivative Contracts on Condensed Consolidated Statement of Income

The following table provides the location in our financial statements of the recognized gains or losses related to our foreign exchange derivative instruments:

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| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|--|------|---|------|
| | (In millions) | | | |
| Foreign exchange contracts designated as cash flow hedges recognized in cost of net revenues and operating expenses | \$2 | \$19 | \$5 | \$51 |
| Foreign exchange contracts designated as cash flow hedges recognized in interest and other, net | 25 | — | 58 | — |
| Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net | 6 | 13 | 9 | (2) |
| Total gain (loss) recognized from foreign exchange derivative contracts in the condensed consolidated statement of income | \$33 | \$32 | \$72 | \$49 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table provides the location in our financial statements of the recognized gains or losses related to our interest rate derivative instruments:

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|--|--|------|---|------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Gain (loss) from interest rate contracts designated as fair value hedges recognized in interest and other, net | \$(26) | \$56 | \$58 | \$55 |
| Gain (loss) from hedged items attributable to hedged risk recognized in interest and other, net | 26 | (56) | (58) | (55) |
| Total gain (loss) recognized from interest rate derivative contracts in the condensed consolidated statement of income | \$— | \$— | \$— | \$— |

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:

| | September 30, | |
|--|---------------|---------|
| | 2016 | 2015 |
| | (In millions) | |
| Foreign exchange contracts designated as cash flow hedges | \$1,553 | \$705 |
| Foreign exchange contracts not designated as hedging instruments | 3,015 | 2,890 |
| Interest rate contracts designated as fair value hedges | 2,400 | 2,400 |
| Total | \$6,968 | \$5,995 |

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10 — Debt

The following table summarizes the carrying value of our outstanding debt:

| | Coupon Rate | As of September 30, 2016 | Effective Interest Rate | As of December 31, 2015 | Effective Interest Rate |
|--|----------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| (In millions, except percentages) | | | | | |
| Long-Term Debt | | | | | |
| Floating Rate Notes: | | | | | |
| | LIBOR | | | | |
| Senior notes due 2017 | plus 0.20% | \$ 450 | 1.076 % | \$ 450 | 0.586 % |
| | LIBOR | | | | |
| Senior notes due 2019 | plus 0.48% | 400 | 1.334 % | 400 | 0.825 % |
| Fixed Rate Notes: | | | | | |
| Senior notes due 2017 | 1.350 % | 1,000 | 1.456 % | 1,000 | 1.456 % |
| 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 2021 | 2.875 % | 750 | 2.993 % | 750 | 2.993 % |
| Senior notes due 2022 | 3.800 % | 750 | 3.989 % | — | — % |
| Senior notes due 2022 | 2.600 % | 1,000 | 2.678 % | 1,000 | 2.678 % |
| Senior notes due 2024 | 3.450 % | 750 | 3.531 % | 750 | 3.531 % |
| Senior notes due 2042 | 4.000 % | 750 | 4.114 % | 750 | 4.114 % |
| Senior notes due 2056 | 6.000 % | 750 | 6.547 % | — | — % |
| Total senior notes | | 9,000 | | 6,750 | |
| Hedge accounting fair value adjustments | | 99 | | 41 | |
| Unamortized discount and debt issuance costs | | (67) | | (42) | |
| Less: Current portion of long-term debt | | (1,450) | | — | |
| Total long-term debt | | 7,582 | | 6,749 | |
| Short-Term Debt | | | | | |
| Current portion of long-term debt | | 1,450 | | — | |
| Unamortized discount and debt issuance costs | | (1) | | — | |
| Total short-term debt | | 1,449 | | — | |
| Total Debt | | \$ 9,031 | | \$ 6,749 | |

Senior Notes

In the first quarter of 2016, we issued senior unsecured notes, or senior notes, in an aggregate principal amount of \$2.25 billion. This consists of \$750 million aggregate principal amount of 2.500% fixed rate notes due 2018, \$750 million aggregate principal amount of 3.800% fixed rate notes due 2022 and \$750 million aggregate principal amount of 6.000% fixed rate notes due 2056.

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 (as defined in the applicable notes) occurs with respect to the 2.500% fixed rate notes due 2018, the 3.800% fixed rate notes due 2022 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 \$68 million and \$46 million during the three months ended September 30, 2016 and 2015, respectively and \$186 million and \$137 million during the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, the estimated fair value of these senior notes was approximately \$9.2 billion.

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 an up to \$1.5 billion commercial paper program pursuant to which we may issue commercial paper notes with maturities of up to 397 days from the date of issue in an aggregate principal amount at maturity of up to \$1.5 billion outstanding at any time. As of September 30, 2016, there were no commercial paper notes outstanding.

Credit Agreement

As of September 30, 2016, 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 for other purposes permitted by the credit agreement as of September 30, 2016. 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, 2016.

Note 11 — Commitments and Contingencies

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) are 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 11, 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, 2016. Except as otherwise noted for the proceedings described in this Note 11, 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.

Regulatory Proceedings

In May 2014, we publicly announced that criminals were able to penetrate our network 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 login to their account. In addition to making this public announcement, we proactively approached a number of regulatory and governmental bodies, including those with the most direct supervisory authority over our data privacy and data security programs, to specifically inform them of the incident and our actions to protect our customers in response. Certain of those regulatory agencies have requested us to provide further, more detailed information regarding the incident, and we believe that we have fully cooperated in all of those requests. To date, we have not been informed by any regulatory authority of an intention to bring any enforcement action arising from this incident; however, in the future we may be subject to fines or other regulatory action. In addition, in July 2014, a putative class action lawsuit was filed against us for alleged violations and harm resulting from the incident. The lawsuit was dismissed with leave to amend.

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 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 prices, rules, policies or agreements. Further, the number and significance of these disputes and inquiries are increasing 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 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 consolidated statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

Off-Balance Sheet Arrangements

As of September 30, 2016, 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, 2016, we had a total of \$1.2 billion in cash withdrawals offsetting our \$1.2 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12 — Stock Repurchase Programs

In January 2015, our Board authorized a stock repurchase program that provided for the repurchase of up to \$2 billion of our common stock. In June 2015, our Board authorized an additional \$1 billion stock repurchase program and in July 2016, our Board authorized an additional \$2.5 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 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.

The stock repurchase activity under our stock repurchase programs during the nine months ended September 30, 2016 is summarized as follows:

| | Average Share Price Repurchased (1) per Share (2) | Value of Repurchased Shares (2) | Remaining Amount Authorized |
|---|--|---------------------------------------|-----------------------------------|
| (In millions, except per share amounts) | | | |
| Balance as of January 1, 2016 | | | \$ 1,836 |
| Authorization of additional plan in July 2016 | | | 2,500 |
| Repurchase of shares of common stock | 80 \$ 25.12 | 2,000 | (2,000) |
| Balance as of September 30, 2016 | | | \$ 2,336 |

(1) These repurchased shares of common stock were recorded as treasury stock and were accounted for under the cost method. No repurchased shares of common stock have been retired.

(2) Excludes broker commissions.

Note 13 — Stock-Based Plans

Stock Option Activity

The following table summarizes stock option activity for the nine months ended September 30, 2016:

| | Options (In millions) |
|-----------------------------------|-----------------------------|
| Outstanding as of January 1, 2016 | 7 |
| Granted and assumed | — |
| Exercised | (1) |
| Forfeited/expired/canceled | (1) |

Outstanding as of September 30, 2016 5

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restricted Stock Unit Activity

The following table summarizes restricted stock unit (“RSU”) activity for the nine months ended September 30, 2016:

| | Units (In millions) |
|--------------------------------------|---------------------------|
| Outstanding as of January 1, 2016 | 36 |
| Awarded and assumed | 27 |
| Vested | (13) |
| Forfeited | (5) |
| Outstanding as of September 30, 2016 | 45 |

The weighted average grant date fair value for RSUs awarded during the nine months ended September 30, 2016 was \$24.21 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, 2016 and 2015 was as follows:

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|--|--|-------|---|-------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Cost of net revenues | \$9 | \$ 10 | \$26 | \$28 |
| Sales and marketing | 24 | 28 | 71 | 75 |
| Product development | 40 | 29 | 115 | 83 |
| General and administrative | 32 | 26 | 94 | 115 |
| Total stock-based compensation expense | \$105 | \$ 93 | \$306 | \$301 |
| Capitalized in product development | \$3 | \$ 3 | \$9 | \$9 |

Stock Option Valuation Assumptions

We calculated the fair value of each stock option award on the date of grant using the Black-Scholes option pricing model. Our computation of expected volatility is based on a combination of historical and market-based implied volatility from traded options on our common stock. Our computation of expected life is based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

No stock options were granted during the three months ended September 30, 2016 and an immaterial amount of stock options were granted during the nine months ended September 30, 2016. The weighted average assumptions used for stock option grants during the three and nine months ended September 30, 2015 were as follows:

| | Three Months Ended September 30, 2015 | | Nine Months Ended September 30, 2015 | |
|--------------------------|--|---|---|---|
| Risk-free interest rate | 1.47 | % | 1.39 | % |
| Expected life (in years) | 4.4 | | 4.1 | |
| Dividend yield | — | % | — | % |
| Expected volatility | 26 | % | 27 | % |

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14 — 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 2003 to 2014 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 certain tax years after 2002 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.

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 is appealing the decision and filed its arguments opposing the Tax Court decision in June 2016. 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 being overturned upon appeal, we have not recorded any benefit or expense as of September 30, 2016. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

Note 15 — Accumulated Other Comprehensive Income

The following tables summarize the changes in accumulated balances of other comprehensive income for the three and nine months ended September 30, 2016:

| | Unrealized Gains (Losses) | Unrealized Gains on Cash Flow Hedges (In millions) | Foreign Currency Translation | Estimated Tax (Expense) Benefit | Total |
|--|---------------------------------|---|------------------------------------|--|---------|
| Balance as of June 30, 2016 | \$69 | \$ 1,149 | \$ 22 | \$ (411) | \$829 |
| Other comprehensive income (loss) before reclassifications | 27 | 350 | 150 | (128) | 399 |
| Less: Amount of gain (loss) reclassified from accumulated other comprehensive income | 27 | (3) | — | — | 24 |
| Net current period other comprehensive income | — | 353 | 150 | (128) | 375 |
| Balance as of September 30, 2016 | \$69 | \$ 1,502 | \$ 172 | \$ (539) | \$1,204 |

| | Unrealized Gains (Losses) | Unrealized Gains on Cash Flow Hedges (In millions) | Foreign Currency Translation | Estimated Tax (Expense) Benefit | Total |
|--|---------------------------------|---|------------------------------------|--|---------|
| Balance as of June 30, 2016 | \$69 | \$ 1,149 | \$ 22 | \$ (411) | \$829 |
| Other comprehensive income (loss) before reclassifications | 27 | 350 | 150 | (128) | 399 |
| Less: Amount of gain (loss) reclassified from accumulated other comprehensive income | 27 | (3) | — | — | 24 |
| Net current period other comprehensive income | — | 353 | 150 | (128) | 375 |
| Balance as of September 30, 2016 | \$69 | \$ 1,502 | \$ 172 | \$ (539) | \$1,204 |

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| | Hedges (In millions) | | | | |
|--|-------------------------|----------|----------|-----------|---------|
| Balance as of December 31, 2015 | \$36 | \$ 845 | \$ (45) | \$ (310) | \$526 |
| Other comprehensive income (loss) before reclassifications | 96 | 621 | 217 | (229) | 705 |
| Less: Amount of gain (loss) reclassified from accumulated other comprehensive income | 63 | (36) | — | — | 27 |
| Net current period other comprehensive income | 33 | 657 | 217 | (229) | 678 |
| Balance as of September 30, 2016 | \$69 | \$ 1,502 | \$ 172 | \$ (539) | \$1,204 |

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables summarize the changes in accumulated balances of other comprehensive income for the three and nine months ended September 30, 2015:

| | Unrealized Gains (Losses) on Cash Flow Hedges (In millions) | Unrealized Gains on Investments | Foreign Currency Translation | Estimated Tax (Expense) Benefit | Total |
|--|--|---------------------------------------|------------------------------------|--|---------|
| Balance as of June 30, 2015 | \$105 | \$ 1,151 | \$ 90 | \$ (404) | \$942 |
| Other comprehensive income (loss) before reclassifications | 21 | (439) | (182) | 156 | (444) |
| Less: Amount of gain (loss) reclassified from accumulated other comprehensive income | 40 | 3 | — | — | 43 |
| Net current period other comprehensive income | (19) | (442) | (182) | 156 | (487) |
| Distribution of PayPal | \$(67) | \$ 3 | \$ 52 | \$ — | \$(12) |
| Balance as of September 30, 2015 | \$19 | \$ 712 | \$ (40) | \$ (248) | \$443 |

| | Unrealized Gains (Losses) on Cash Flow Hedges (In millions) | Unrealized Gains on Investments | Foreign Currency Translation | Estimated Tax (Expense) Benefit | Total |
|--|--|---------------------------------------|------------------------------------|--|---------|
| Balance as of December 31, 2014 | \$168 | \$ 1,029 | \$ 334 | \$ (360) | \$1,171 |
| Other comprehensive income (loss) before reclassifications | 102 | (319) | (426) | 112 | (531) |
| Less: Amount of gain (loss) reclassified from accumulated other comprehensive income | 184 | 1 | — | — | 185 |
| Net current period other comprehensive income | (82) | (320) | (426) | 112 | (716) |
| Distribution of PayPal | \$(67) | \$ 3 | \$ 52 | \$ — | \$(12) |
| Balance as of September 30, 2015 | \$19 | \$ 712 | \$ (40) | \$ (248) | \$443 |

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table provides details about reclassifications out of accumulated other comprehensive income for the three and nine months ended September 30, 2016 and 2015:

| Details about Accumulated Other Comprehensive Income Components | Affected Line Item in the Statement of Income | Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income | | | |
|---|---|--|--------------------------------------|---------------------------------------|--------------------------------------|
| | | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
| | | (In millions) | | | |
| Gains (losses) on cash flow hedges - foreign exchange contracts | Cost of net revenues | \$— | \$ 7 | \$ 1 | \$ 18 |
| | Sales and marketing | — | 2 | — | 4 |
| | Product development | 1 | 9 | 3 | 25 |
| | General and administrative | 1 | 1 | 1 | 4 |
| | Interest and other, net | 25 | — | 58 | — |
| | Total, from continuing operations before income taxes | 27 | 19 | 63 | 51 |
| | Provision for income taxes | — | — | — | — |
| | Total, from continuing operations net of income taxes | 27 | 19 | 63 | 51 |
| | Total, from discontinued operations net of income taxes | — | 21 | — | 133 |
| | Total, net of income taxes | 27 | 40 | 63 | 184 |
| Unrealized gains (losses) on investments | Interest and other, net | (3) | 3 | (36) | 1 |
| | Total, before income taxes | (3) | 3 | (36) | 1 |
| | Provision for income taxes | — | — | — | — |
| | Total, net of income taxes | (3) | 3 | (36) | 1 |
| Total reclassifications for the period | Total, net of income taxes | \$24 | \$ 43 | \$27 | \$ 185 |

Note 16 — Restructuring

In January 2015, at a regular meeting of our Board, our Board approved a plan to implement a strategic reduction of our existing global workforce. As a result, we reduced our workforce globally. The reduction was completed in the first half of 2015. The restructuring costs are aggregated in general and administrative expenses in the condensed consolidated statement of income.

No restructuring costs were recognized during the three and nine months ended September 30, 2016. During the three and nine months ended September 30, 2015, restructuring cost of \$2 million and \$62 million, respectively, were recognized. No liability remained at September 30, 2016 for these restructuring costs.

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,” 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 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, or the 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 that appear elsewhere in this report.

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.

Overview

eBay Inc. is a global commerce leader, including our Marketplace, StubHub and Classifieds platforms. Our Marketplace platforms include our online marketplace located at www.ebay.com, its localized counterparts and the eBay mobile apps. Our StubHub platforms include our online ticket platform located at www.stubhub.com, the StubHub mobile apps and Ticketbis. Our Classifieds platforms include a collection of brands such as Mobile.de, Kijiji, Gumtree, Marktplaats, eBay Classifieds and others.

Highlights

Net revenues increased 6% to \$2.2 billion for the three months ended September 30, 2016 compared to the same period in 2015. FX-Neutral net revenue (as defined below) increased 8% for the three months ended September 30, 2016 compared to the same period in 2015. Operating margin decreased to 24% for the three months ended September 30, 2016 compared to 28% in the same period of 2015. Diluted earnings per share from continuing operations decreased to \$0.36 for the three months ended September 30, 2016 compared to \$0.45 in the same period in 2015. We generated cash flow from continuing operating activities of \$802 million for the three months ended September 30, 2016 compared to \$704 million in the same period in 2015.

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. 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 foreign exchange neutral (“FX-Neutral”) , or constant currency, net revenue amounts are non-GAAP financial measures and are not in accordance with, or an alternative to, measures prepared in accordance with generally accepted accounting principles (“GAAP”). The information in this section should be read in connection with the information in “Non-GAAP Measure of Financial Performance.”

Because we generated a majority of our net revenues internationally, including the three and nine months ended September 30, 2016 and 2015, we are subject to the risks of doing business in foreign countries as discussed under “Part II - Item 1A - Risk Factors” of this Quarterly Report on Form 10-Q.

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The following table sets 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:

| | Three Months Ended September 30, 2016 | | | Three Months Ended September 30, 2015 | | As Reported Percent Change | | FX-Neutral Percent Change | |
|---|--|---|---------------------------|---|----|-------------------------------------|----|---------------------------------|--|
| | As Reported | Exchange Rate Effect ⁽¹⁾ | FX-Neutral ⁽²⁾ | As Reported | | | | | |
| (In millions, except percentage changes) | | | | | | | | | |
| GMV ⁽³⁾ : | | | | | | | | | |
| Marketplace | \$18,973 | \$ (523) | \$ 19,496 | \$ 18,674 | 2 | % | 4 | % | |
| StubHub | 1,142 | (2) | 1,144 | 927 | 23 | % | 23 | % | |
| Total GMV | \$20,115 | \$ (525) | \$ 20,640 | \$ 19,601 | 3 | % | 5 | % | |
| Net transaction revenues: | | | | | | | | | |
| Marketplace | \$1,484 | \$ (41) | \$ 1,525 | \$ 1,459 | 2 | % | 5 | % | |
| StubHub | 261 | (2) | 263 | 200 | 31 | % | 31 | % | |
| Total net transaction revenues | 1,745 | (43) | 1,788 | 1,659 | 5 | % | 8 | % | |
| Marketing services and other revenues: | | | | | | | | | |
| Marketplace | 273 | (7) | 280 | 266 | 3 | % | 5 | % | |
| Classifieds | 197 | (4) | 201 | 178 | 11 | % | 14 | % | |
| StubHub, Corporate and other | 2 | — | 2 | (4) | ** | | ** | | |
| Total marketing services and other revenues | 472 | (11) | 483 | 440 | 7 | % | 10 | % | |
| Total net revenues | \$2,217 | \$ (54) | \$ 2,271 | \$ 2,099 | 6 | % | 8 | % | |

| | Nine Months Ended September 30, 2016 | | | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---------------------------|--|-------------------------------------|---------------------------------|--|
| | As Reported | Exchange Rate Effect ⁽¹⁾ | FX-Neutral ⁽²⁾ | As Reported | As Reported Percent Change | FX-Neutral Percent Change | |
| (In millions, except percentage changes) | | | | | | | |
| GMV ⁽³⁾ : | | | | | | | |
| Marketplace | \$58,344 | \$(1,524) | \$ 59,868 | \$ 57,423 | 2 % | 4 % | |
| StubHub | 3,071 | (5) | 3,076 | 2,390 | 28 % | 29 % | |
| Total GMV | \$61,415 | \$(1,529) | \$ 62,944 | \$ 59,813 | 3 % | 5 % | |
| Net transaction revenues: | | | | | | | |
| Marketplace | \$4,505 | \$(113) | \$ 4,618 | \$ 4,519 | — % | 2 % | |
| StubHub | 663 | (2) | 665 | 493 | 34 % | 35 % | |
| Total net transaction revenues | 5,168 | (115) | 5,283 | 5,012 | 3 % | 5 % | |
| Marketing services and other revenues: | | | | | | | |
| Marketplace | 824 | (14) | 838 | 752 | 10 % | 12 % | |
| Classifieds | 590 | (9) | 599 | 520 | 13 % | 15 % | |
| StubHub, Corporate and other | 2 | — | 2 | (14) | ** | ** | |
| Total marketing services and other revenues | 1,416 | (23) | 1,439 | 1,258 | 13 % | 15 % | |
| Total net revenues | \$6,584 | \$(138) | \$ 6,722 | \$ 6,270 | 5 % | 7 % | |

(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.

We define FX-Neutral Gross Merchandise Volume as Gross Merchandise Volume minus the exchange rate effect.

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

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 (3) seller actually consummated the transaction. We believe 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.

**Not meaningful

The impact to cost of net revenues due to foreign currency movements relative to the U.S. dollar was immaterial during the three months ended September 30, 2016 compared to the same period in 2015. Cost of net revenues, net of \$1 million from hedging activities, was favorably impacted by \$12 million due to foreign currency movements relative to the U.S. dollar in the nine months ended September 30, 2016 compared to the same period in 2015.

Operating expenses, net of \$2 million from hedging activities, were favorably impacted by \$15 million due to foreign currency movements relative to the U.S. dollar in the three months ended September 30, 2016 compared to the same period in 2015. Operating expenses, net of \$4 million from hedging activities, were favorably impacted by \$43 million due to foreign currency movements relative to the U.S. dollar in the nine months ended September 30, 2016

compared to the same period in 2015.

The effect of foreign currency exchange rate movements during the three and nine months ended September 30, 2016 compared to the same period in 2015 was due to strengthening of the U.S. dollar against other currencies, primarily the British pound and the Korean won.

Results of Operations

Summary of Net Revenues

We generate two types of net revenues: net transaction revenues and marketing services and other 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. Marketing services and other revenues consists of Marketplace and Classifieds revenue principally from the sale of advertisements, vehicles classifieds listing on Marketplace platforms, revenue sharing arrangements, classifieds fees, marketing service fees and lead referral fees. To drive traffic to our platforms, we provide incentives to our users in the form of coupons and buyer and seller rewards. These incentives are generally treated as reductions in revenue.

The following table sets forth the breakdown of net revenues by type and geography for the periods presented:

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|--|---------|---|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Net Revenues by Type: | | | | |
| Net transaction revenues: | | | | |
| Marketplace | \$1,484 | \$1,459 | \$4,505 | \$4,519 |
| StubHub | 261 | 200 | 663 | 493 |
| Total net transaction revenues | 1,745 | 1,659 | 5,168 | 5,012 |
| Marketing services and other revenues: | | | | |
| Marketplace | 273 | 266 | 824 | 752 |
| Classifieds | 197 | 178 | 590 | 520 |
| StubHub, Corporate and other | 2 | (4) | 2 | (14) |
| Total marketing services and other revenues | 472 | 440 | 1,416 | 1,258 |
| Total net revenues | \$2,217 | \$2,099 | \$6,584 | \$6,270 |
| Net Revenues by Geography: | | | | |
| U.S. | \$974 | \$901 | \$2,828 | \$2,634 |
| International | 1,243 | 1,198 | 3,756 | 3,636 |
| Total net revenues | \$2,217 | \$2,099 | \$6,584 | \$6,270 |

Revenues are attributed to U.S. and international geographies based primarily upon the country in which the seller, platform that displays advertising, other service provider or customer, as the case may be, is located.

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The following table sets forth certain key operating metrics that we believe are significant factors affecting our net revenues for the periods presented:

| | Three Months Ended | | | Percent Change | Nine Months Ended | | | Percent Change |
|--|--------------------|------|------|-------------------|-------------------|------|------|-------------------|
| | September 30, | | 2016 | | September 30, | | 2015 | |
| | 2016 | 2015 | | | 2016 | 2015 | | |

(In millions, except percentage changes)

Supplemental Operating Data:

GMV:

| | | | | | | | | |
|-------------|----------|----------|----|---|----------|----------|----|---|
| Marketplace | \$18,973 | \$18,674 | 2 | % | \$58,344 | \$57,423 | 2 | % |
| StubHub | 1,142 | 927 | 23 | % | 3,071 | 2,390 | 28 | % |
| Total GMV | \$20,115 | \$19,601 | 3 | % | \$61,415 | \$59,813 | 3 | % |

Transaction take rate:

| | | | | | | | | | | | | |
|--|-------|---|-------|---|------|---|-------|---|-------|---|---------|---|
| Marketplace ⁽¹⁾ | 7.82 | % | 7.81 | % | 0.01 | % | 7.72 | % | 7.87 | % | (0.15)% | |
| StubHub ⁽²⁾ | 22.85 | % | 21.57 | % | 1.28 | % | 21.59 | % | 20.63 | % | 0.96 | % |
| Total transaction take rate ⁽³⁾ | 8.68 | % | 8.46 | % | 0.22 | % | 8.41 | % | 8.38 | % | 0.03 | % |

(1) We define Marketplace transaction take rate as Marketplace net transaction revenues divided by Marketplace GMV.

(2) We define StubHub transaction take rate as StubHub net transaction revenues divided by StubHub GMV.

(3) We define total transaction take rate as total net transaction revenues divided by total GMV.

Seasonality

The following table sets forth our total net revenues and the sequential quarterly changes in these net revenues for the periods presented:

| | Three Months Ended | | | | | |
|-----------------------------------|--|---------|--------------|-------------|-------|---|
| | March 31 | June 30 | September 30 | December 31 | | |
| | (In millions, except percentage changes) | | | | | |
| 2014 | | | | | | |
| Net revenues | \$2,149 | \$2,168 | \$2,150 | \$2,323 | | |
| Percent change from prior quarter | (6) |)% | 1 | % (1) |)% 8 | % |
| 2015 | | | | | | |
| Net revenues | \$2,061 | \$2,110 | \$2,099 | \$2,322 | | |
| Percent change from prior quarter | (11) |)% | 2 | % (1) |)% 11 | % |
| 2016 | | | | | | |
| Net revenues | \$2,137 | \$2,230 | \$2,217 | \$— | | |
| Percent change from prior quarter | (8) |)% | 4 | % (1) |)% — | % |

We expect transaction activity patterns on our platforms to mirror general consumer buying patterns and expect that these trends will continue.

Net Transaction Revenues

Net transaction revenues increased \$86 million, or 5%, and GMV increased 3% during the three months ended September 30, 2016 compared to the same period in 2015. Net transaction revenues represented 79% of total net revenues in the three months ended September 30, 2016 and 2015. The increase in net transaction revenues and GMV was primarily driven by FX-Neutral net revenue and FX-Neutral GMV increases, partially offset by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral net transaction revenue and FX-Neutral

GMV increased 8% and 5%, respectively, during the three months ended September 30, 2016 compared to the same period in 2015. The FX-Neutral GMV increase of 5% was primarily driven by an increase in FX-Neutral Marketplace GMV, and to a lesser extent, StubHub GMV. The total transaction take rate was higher during the three months ended September 30, 2016 compared to the same period in 2015 due to an increase in our StubHub transaction take rate and a VAT-related settlement.

Marketplace net transaction revenues and Marketplace GMV both increased 2%, during the three months ended September 30, 2016 compared to the same period in 2015. These increases were primarily driven by FX-Neutral Marketplace net transaction revenue and FX-Neutral Marketplace GMV increases of 5% and 4% respectively, during the three months ended September 30, 2016 compared to the same period in 2015. The FX-Neutral Marketplace GMV increase of 4% was primarily driven by an increase in volume in local currencies on our Marketplace platforms internationally and to a lesser extent, the U.S. Marketplace transaction take rate was slightly higher during the three months ended September 30, 2016 compared to the same period in 2015 primarily due to a VAT-related settlement, partially offset by a shift in seller mix.

StubHub net transaction revenues increased \$61 million, or 31%, while StubHub GMV increased 23% during the three months ended September 30, 2016 compared to the same period in 2015. The increase in StubHub net transaction revenues was primarily attributable to an increase in StubHub GMV and a higher StubHub transaction take rate. The increase in StubHub GMV was primarily driven by Concerts, Sports and Theater. The increase in StubHub transaction take rate was primarily due to a change in mix of events and sellers on the StubHub platforms. The increase in StubHub net transaction revenue was greater than the increase in StubHub GMV due to the higher StubHub transaction take rate.

Net transaction revenues increased \$156 million, or 3%, and GMV increased 3% during the nine months ended September 30, 2016 compared to the same period in 2015. Net transaction revenues represented 78% of total net revenues in the nine months ended September 30, 2016 compared to 80% in the same period in the prior year. The increase in net transaction revenues and GMV was primarily driven by FX-Neutral net revenue and FX-Neutral GMV increases, partially offset by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral net transaction revenue and FX-Neutral GMV both increased 5% during the nine months ended September 30, 2016 compared to the same period in 2015. The FX-Neutral GMV increase of 5% was primarily driven by an increase in FX-Neutral Marketplace GMV, and to a lesser extent, StubHub GMV. The total transaction take rate was higher during the nine months ended September 30, 2016 compared to the same period in 2015 due to an increase in our StubHub transaction take rate and a VAT-related settlement, partially offset by a decrease in our Marketplace transaction take rate.

Marketplace net transaction revenues decreased \$14 million, or 0%, while Marketplace GMV increased 2%, during the nine months ended September 30, 2016 compared to the same period in 2015. The decrease in Marketplace net transaction revenues was primarily driven by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral Marketplace net transaction revenue and FX-Neutral Marketplace GMV increased 2% and 4% respectively, during the nine months ended September 30, 2016 compared to the same period in 2015. The FX-Neutral Marketplace GMV increase of 4% was driven primarily by an increase in volume in local currencies on our Marketplace platforms internationally and to a lesser extent, the U.S. The increase in FX-Neutral Marketplace net transaction revenue was less than the increase in FX-Neutral Marketplace GMV due to a lower Marketplace transaction take rate. The Marketplace transaction take rate was lower in the nine months ended September 30, 2016 compared to the same period in 2015 due to a shift in seller mix and an increase in our buyer and seller incentives, partially offset by a VAT-related settlement.

StubHub net transaction revenues increased \$170 million, or 34%, while StubHub GMV increased 28% during the nine months ended September 30, 2016 compared to the same period in 2015. The increase in StubHub net transaction revenues was primarily attributable to an increase in StubHub GMV and a higher StubHub transaction take rate. The increase in StubHub GMV was primarily driven by Sports, Concerts and Theater. The increase in StubHub transaction take rate was primarily due to a change in mix of events and sellers on the StubHub platforms. The increase in StubHub net transaction revenue was greater than the increase in StubHub GMV due to the higher StubHub transaction take rate.

Net transaction revenues earned internationally totaled \$921 million and \$904 million during the three months ended September 30, 2016 and 2015, respectively, representing 53% and 54% of total net transaction revenues in the respective periods. Net transaction revenues earned internationally totaled \$2.8 billion and \$2.8 billion during the nine months ended September 30, 2016 and 2015, respectively, representing 54% and 56% of total net transaction revenues in the respective periods.

Marketing Services and Other Revenues

Marketing services and other revenues increased \$32 million, or 7%, during the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily driven by an increase in FX-Neutral marketing services and other revenues partially offset by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral marketing services and other revenues increased 10% during the three months ended September 30, 2016 compared to the same period in 2015. The FX-Neutral marketing services and other revenues increase was driven by increased FX-Neutral Classifieds marketing services and other revenues, and to a lesser extent, increased FX-Neutral Marketplace marketing services and other revenues.

Marketplace marketing services and other revenues increased \$7 million, or 3%, during the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily driven by an increase in FX-Neutral Marketplace marketing services and other revenues partially offset by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral Marketplace marketing services and other revenues increased by 5% during the three months ended September 30, 2016 compared to the same period in 2015. The increase in FX-Neutral Marketplace marketing services and other revenues was primarily driven by increased fees earned for referral services. The increase in fees earned for referral services consisted primarily of fees for customers acquired and incentives for the usage of PayPal products on certain Marketplace platforms, which were not included in marketing services and other revenues prior to the distribution of PayPal.

Classifieds marketing services and other revenues increased \$19 million, or 11%, during the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily driven by an increase in FX-Neutral Classifieds marketing services and other revenues. FX-Neutral Classifieds marketing services and other revenues increased by 14% in the three months ended September 30, 2016 compared to the same period of the prior year. The increase in FX-Neutral Classifieds marketing services and other revenues was driven primarily by increased revenue from our Classifieds platforms in our developed markets of Germany, Canada and Australia.

Marketing services and other revenues increased \$158 million, or 13%, during the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily driven by an increase in FX-Neutral marketing services and other revenues partially offset by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral marketing services and other revenues increased 15% during the nine months ended September 30, 2016 compared to the same period in 2015. The FX-Neutral marketing services and other revenues increase was driven by increased FX-Neutral Marketplace marketing services and other revenues, and to a lesser extent, increased FX-Neutral Classifieds marketing services and other revenues.

Marketplace marketing services and other revenues increased \$72 million, or 10%, during the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily driven by an increase in FX-Neutral Marketplace marketing services and other revenues partially offset by a negative impact from foreign currency movements relative to the U.S. dollar. FX-Neutral Marketplace marketing services and other revenues increased by 12% during the nine months ended September 30, 2016 compared to the same period in 2015. The increase in FX-Neutral Marketplace marketing services and other revenues was primarily driven by increased fees earned for referral services and increased revenue in local currencies from advertising display on our Marketplace platforms. The increase in fees earned for referral services consisted primarily of fees for customers acquired and incentives for the usage of PayPal products on certain Marketplace platforms, which were not included in marketing services and other revenues prior to the distribution of PayPal.

Classifieds marketing services and other revenues increased \$70 million, or 13%, during the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily driven by an increase in FX-Neutral Classifieds marketing services and other revenues partially offset by a negative impact from foreign

currency movements relative to the U.S. dollar. FX-Neutral Classifieds marketing services and other revenues increased by 15% during the nine months ended September 30, 2016 compared to the same period in 2015. The increase in FX-Neutral Classifieds marketing services and other revenues was primarily driven by increased revenue from our Classifieds platforms in our developed markets of Germany, Australia and Canada.

Summary of Cost of Net Revenues

The following table summarizes changes in cost of net revenues for the periods presented:

| | Three Months Ended September 30, | | Change from 2015 to 2016 | | Nine Months Ended September 30, | | Change from 2015 to 2016 | |
|---------------------------------|-----------------------------------|--------|--------------------------|------|---------------------------------|---------|--------------------------|------|
| | 2016 | 2015 | in Dollars | in % | 2016 | 2015 | in Dollars | in % |
| | (In millions, except percentages) | | | | | | | |
| Cost of net revenues | \$498 | \$433 | \$65 | 15% | \$1,468 | \$1,278 | \$190 | 15% |
| As a percentage of net revenues | 22.5 % | 20.6 % | | | 22.3 % | 20.4 % | | |

Cost of net revenues primarily consists of costs associated with customer support, site operations, and payment processing. Significant components of these costs include employee compensation, contractor costs, facilities costs, depreciation of equipment and amortization expense, bank transaction fees, and credit card interchange and assessment fees.

Cost of net revenues increased \$65 million, or 15%, during the three months ended September 30, 2016, compared to the same period in 2015. The increase was primarily due to an increase in costs for customer support, logistics and fulfillment driven by GMV growth, an increase in transaction fees for payment services and continued investment in our site operations and data centers. Cost of net revenues as a percentage of net revenues was 22.5% and 20.6% for the three months ended September 30, 2016 and 2015, respectively.

Cost of net revenues increased \$190 million, or 15%, during the nine months ended September 30, 2016, compared to the same period in 2015. The increase was primarily due to an increase in transaction fees for payment services and continued investment in our site operations and data centers offset by a favorable impact due to foreign currency movements relative to the U.S. dollar. The increase in transaction fees for payment services primarily consisted of the impact of transaction fees for payment services provided by PayPal which were not included in cost of net revenues prior to the Distribution. Cost of net revenues as a percentage of net revenues was 22.3% and 20.4% for the nine months ended September 30, 2016 and 2015, respectively.

Summary of Operating Expenses and Interest and Other, net

The following table summarizes changes in operating expenses and interest and other, net for the periods presented:

| | Three Months Ended September 30, | | Change from 2015 to 2016 | | Nine Months Ended September 30, | | Change from 2015 to 2016 | |
|--|--|-------|--------------------------|-------|---------------------------------|---------|--------------------------|-------|
| | 2016 | 2015 | in Dollars | in % | 2016 | 2015 | in Dollars | in % |
| | (In millions, except percentage changes) | | | | | | | |
| Sales and marketing | \$600 | \$565 | \$35 | 6 % | \$1,760 | \$1,672 | \$88 | 5 % |
| Product development | 288 | 241 | 47 | 20 % | 822 | 694 | 128 | 18 % |
| General and administrative | 224 | 207 | 17 | 8 % | 651 | 862 | (211) | (24)% |
| Provision for transaction losses | 56 | 65 | (9) | (14)% | 172 | 199 | (27) | (14)% |
| Amortization of acquired intangible assets | 9 | 10 | (1) | (10)% | 24 | 30 | (6) | (20)% |
| Interest and other, net | (9) | 87 | (96) | ** | (40) | 221 | (261) | ** |

The following table summarizes operating expenses and interest and other, net as a percentage of net revenues for the periods presented:

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|--|--|------|---|------|
| Sales and marketing | 27 % | 27 % | 27 % | 27 % |
| Product development | 13 % | 11 % | 12 % | 11 % |
| General and administrative | 10 % | 10 % | 10 % | 14 % |
| Provision for transaction losses | 3 % | 3 % | 3 % | 3 % |
| Amortization of acquired intangible assets | — % | — % | — % | — % |
| Interest and other, net | — % | 4 % | (1) % | 4 % |

Sales and Marketing

Sales and marketing expenses consist primarily of advertising costs and marketing programs (both online and offline), employee compensation, 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.

Sales and marketing expense increased \$35 million, or 6%, during the three months ended September 30, 2016 compared to the same period in 2015, and increased \$88 million, or 5%, during the nine months ended September 30, 2016 compared to the same period in 2015. These increases were primarily due to an increase in marketing program costs (both online and offline programs) partially offset by a favorable impact from foreign currency movements relative to the U.S. dollar.

Product Development

Product development expenses consist primarily of employee compensation, contractor costs, facilities costs and depreciation on equipment. Product development expenses are net of required capitalization of major platforms and other product development efforts, including the development of our platform architecture, migration of certain platforms, and seller tools. Our top technology priorities include structured data, multi-screen capabilities, improved seller tools and buyer experiences.

Capitalized internal use and website development costs were \$52 million and \$103 million in the three and nine months ended September 30, 2016 compared to \$41 million and \$120 million in the three and nine months ended September 30, 2015 and are primarily reflected as a cost of net revenues when amortized in future periods.

Product development expenses increased \$47 million, or 20%, during the three months ended September 30, 2016 compared to the same period in 2015 primarily due to higher employee-related costs driven by increased investment in our platforms and increased depreciation on equipment. Product development expenses increased \$128 million, or 18%, during the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to higher employee-related costs driven by increased investment in our platforms; favorable hedging relative to the U.S. dollar during the nine months ended September 30, 2015 that did not recur to the same extent in the nine months ended September 30, 2016; and increased depreciation on equipment.

General and Administrative

General and administrative expenses consist primarily 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.

General and administrative expenses increased \$17 million, or 8%, during the three months ended September 30, 2016 compared to the same period of the prior year. The increase was primarily due to costs related to the Distribution of PayPal in the three months ended September 30, 2015 that did not recur in the three months ended September 30, 2016 and an increase in corporate costs in the three months ended September 30, 2016 due to a reduction in synergies that existed prior to the Distribution.

General and administrative expenses decreased \$211 million, or 24%, during the nine months ended September 30, 2016 compared to the same period of the prior year. The decrease was due primarily to costs related to the Distribution of PayPal, restructuring expenses from our global workforce reduction and expenses related to craigslist, Inc. litigation proceedings in the nine months ended September 30, 2015 that did not recur in the nine months ended September 30, 2016. The reduction in these expenses were partially offset by an increase in corporate costs in the nine months ended September 30, 2016 due to a reduction in synergies that existed prior to the Distribution.

Provision for Transaction Losses

Provision for transaction losses consists primarily of transaction loss expense associated with our customer protection programs, fraud and bad debt expense associated with our accounts receivable balance. We expect our provision for transaction losses to fluctuate depending on many factors, including changes to our customer protection programs and the impact of regulatory changes.

The decrease in the provision for transaction losses of \$9 million, or 14%, during the three months ended September 30, 2016 compared to the same period in 2015 and \$27 million, or 14%, during the nine months ended September 30, 2016 compared to the same period in 2015 was primarily due to lower customer protection program costs.

Amortization of Acquired Intangible Assets

From time to time we have purchased, and we expect to continue to purchase, assets and businesses. These purchase transactions generally result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in periods subsequent to acquisition. We amortize intangible assets over the period of estimated benefit, using the straight-line method and estimated useful lives ranging from one to five years. Amortization of acquired intangible assets is also impacted by our sales of assets and businesses and timing of acquired intangible assets becoming fully amortized. See “Note 5 - Goodwill and Intangible Assets” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Amortization of acquired intangible assets decreased \$1 million and \$6 million during the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. These decreases were due to certain intangible assets becoming fully amortized during 2015.

Interest and Other, Net

Interest and other, net consists primarily of interest earned on cash, cash equivalents and investments, as well as foreign exchange transaction gains and losses, 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.

Interest and other, net decreased \$96 million and \$261 million during the three and nine months ended September 30, 2016, respectively, compared to the same period in 2015. These decreases were primarily due to gains on sale of investments in the three and nine months ended September 30, 2015 that did not recur in the three and nine months ended September 30, 2016, partially offset by an increase in interest expense related to the issuance of senior notes during the first quarter of 2016.

Provision for Income Taxes

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|----------------------------|--|--------|---|--------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions, except percentages) | | | |
| Provision for income taxes | \$ 115 | \$ 120 | \$ 310 | \$ 332 |
| Effective tax rate | 22 % | 18 % | 19 % | 19 % |

Our effective tax rate was 22% for the three months ended September 30, 2016 compared to 18% for the same period in the prior year. The increase in our effective tax rate for the three months ended September 30, 2016 compared to the same period of the prior year was primarily related to the change in mix of pre-tax income between our domestic and international operations, offset by favorable other nonrecurring items.

Our effective tax rate of 19% for the nine months ended September 30, 2016 was the same as for the same period in the prior year. While our effective tax rate did not change for the nine months ended September 30, 2016 compared to the same period of the prior year, there was an increase in the rate primarily related to mix of pre-tax income between our domestic and international operations, offset by favorable nonrecurring items.

From time to time, we engage in certain intercompany transactions and legal entity restructurings. We consider many factors when evaluating these transactions, including the alignment of our corporate structure with our organizational objectives and the operational and tax efficiency of our corporate structure, as well as the long-term cash flows and cash needs of our different businesses. These transactions may impact our overall tax rate and/or result in additional cash tax payments. The impact in any period may be significant. These transactions may be 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 can provide no assurances 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 Measure of Financial Performance

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, we use FX-Neutral net revenues, which are non-GAAP financial measures. We define the FX-Neutral net revenue as net revenue 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.

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.

Reconciliation of FX-neutral net revenues to the most directly comparable GAAP measure can be found in the table under "Impact of Foreign Currency Exchange Rates" included above. These non-GAAP measures are provided to enhance investors' overall understanding of our current financial performance and our 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.

In addition to these corresponding GAAP measures, management uses the foregoing non-GAAP measures in reviewing our financial results.

Liquidity and Capital Resources

Cash Flows

| | Nine Months Ended September 30, 2016 2015 (In millions) | |
|---|---|-----------|
| Net cash provided by (used in): | | |
| Continuing operating activities | \$2,207 | \$1,751 |
| Continuing investing activities | (2,568) | 549 |
| Continuing financing activities | 182 | (1,733) |
| Effect of exchange rates on cash and cash equivalents | 101 | (286) |
| Net increase in cash and cash equivalents - discontinued operations | (1) | (4,194) |
| Net increase (decrease) in cash and cash equivalents | \$(79) | \$(3,913) |

Continuing Operating Activities

The net cash provided by continuing operating activities of \$2.2 billion in the nine months ended September 30, 2016 was due primarily to net income of \$1.3 billion with adjustments of \$506 million in depreciation and amortization, \$172 million in provision for transaction losses, and \$306 million in stock-based compensation and a decrease of \$139 million in changes in assets and liabilities, and other, net of acquisition effects.

The net cash provided by continuing operating activities of \$1.8 billion in the nine months ended September 30, 2015 was due primarily to net income of \$1.2 billion with adjustments for loss from discontinued operations of \$176 million, \$516 million in depreciation and amortization, \$301 million in stock-based compensation and \$199 million in provision for transaction losses, and a decrease of \$212 million gain on sale of investments and \$477 million in changes in assets and liabilities, and other, net of acquisition effects.

Continuing Investing Activities

The net cash used in continuing investing activities of \$2.6 billion in the nine months ended September 30, 2016 was due primarily to cash paid for purchases of investments of \$7.8 billion, purchases of property and equipment of \$490 million and net cash paid for business acquisitions of \$201 million, partially offset by proceeds of \$5.9 billion from the maturities and sale of investments.

The net cash provided by continuing investing activities of \$549 million in the nine months ended September 30, 2015 was due primarily to proceeds of \$5.6 billion from the maturities and sale of investments partially offset by cash paid for purchases of investments of \$4.5 billion, purchases of property and equipment of \$539 million and net cash paid for business acquisitions of \$24 million.

Continuing Financing Activities

The net cash provided by continuing financing activities of \$182 million in the nine months ended September 30, 2016 was due primarily to cash inflows of \$2.2 billion from the issuance of senior notes partially offset by cash outflows of \$2.0 billion to repurchase common stock.

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The net cash used in continuing financing activities of \$1.7 billion in the nine months ended September 30, 2015 was due primarily to cash outflows of \$1.5 billion to repurchase common stock and cash paid for tax withholdings in the amount of \$226 million related to net share settlements of restricted stock units and awards. These cash outflows were partially offset by \$173 million from the issuance of common stock in connection with the exercise of stock options and the effect of \$72 million of excess tax benefits from stock-based compensation.

The positive effect of exchange rate movements on cash and cash equivalents during the nine months ended September 30, 2016 was due to the weakening of the U.S. dollar against other currencies, primarily the Euro.

Stock Repurchases

In January 2015, our Board authorized a stock repurchase program that provided for the repurchase of up to \$2 billion of our common stock. In June 2015, our Board authorized an additional \$1 billion stock repurchase program and in July 2016, our board of directors authorized an additional \$2.5 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 repurchases of our common stock to reduce 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, 2016, we repurchased approximately \$2.0 billion of our common stock under our stock repurchase programs. As of September 30, 2016, a total of approximately \$2.3 billion remained available for future repurchases of our common stock under our July 2016 repurchase program.

We expect, subject to market conditions and other uncertainties, to continue making opportunistic 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 Long-Term Debt

At September 30, 2016, 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.

In the first quarter of 2016, we issued senior unsecured notes, or senior notes, in an aggregate principal amount of \$2.25 billion. This consists of \$750 million aggregate principal amount of 2.500% fixed rate notes due 2018, \$750 million aggregate principal amount of 3.800% fixed rate notes due 2022 and \$750 million aggregate principal amount of 6.000% fixed rate notes due 2056.

We previously issued senior notes in underwritten public offerings under prior registration statements. The senior notes that remained outstanding as of September 30, 2016 consisted of \$450 million aggregate principal amount of floating rate notes due 2017, \$1.0 billion aggregate principal amount of 1.35% fixed rate notes due 2017, \$400 million aggregate principal amount of floating rate notes due 2019, \$1.15 billion aggregate principal amount of 2.2% fixed rate notes due 2019, \$500 million aggregate principal amount of 3.250% fixed rate notes due 2020, \$750 million aggregate principal amount of 2.875% fixed rate notes due 2021, \$1.0 billion aggregate principal amount of 2.60% fixed rate notes due 2022, \$750 million aggregate principal amount of 3.45% fixed rate notes due 2024 and \$750 million aggregate principal amount of 4.00% fixed rate notes due 2042.

The net proceeds from the sale of these senior notes will be 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 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 (as defined in the applicable notes) occurs with respect to the 2.500% fixed rate notes due 2018, the 3.800% fixed rate notes due 2022 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.

To help achieve our interest rate risk management objectives, we previously 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 an up to \$1.5 billion commercial paper program pursuant to which we may issue commercial paper notes with maturities of up to 397 days from the date of issue in an aggregate principal amount at maturity of up to \$1.5 billion outstanding at any time. As of September 30, 2016, there were no commercial paper notes outstanding.

Credit Agreement

As of September 30, 2016, no borrowings or letters of credit were outstanding under our \$2 billion credit agreement. As described above, we have an up to \$1.5 billion commercial paper program and 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, at September 30, 2016, \$500 million of borrowing capacity was available for other purposes permitted by the credit agreement. The credit agreement contains 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.

We were in compliance with all covenants in our outstanding debt instruments for the nine months ended September 30, 2016.

Credit Ratings

As of September 30, 2016, 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, 2016 and December 31, 2015, 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 \$10.4 billion and \$8.5 billion, respectively. As of September 30, 2016, this amount included assets held in certain of our foreign operations totaling approximately \$7.6 billion. Of the \$7.6 billion held by our non-U.S. subsidiaries, approximately \$4.9 billion was available for use in the U.S. without incurring additional U.S. income taxes in excess of the amounts already accrued in our condensed consolidated financial statements as of September 30, 2016. As of September 30, 2016, we had not

repatriated any of these funds to the U.S. and, as a result, we have not yet paid U.S. tax on any portion of these funds. However, to the extent we repatriate these funds to the U.S., we will be required to pay U.S. income and applicable foreign withholding taxes on those amounts during the period when such repatriation occurs. The remaining amount of non-U.S. cash and cash equivalents, as well as short-term and long-term non-equity investments, have been indefinitely reinvested and, therefore, no U.S. current or deferred taxes have been accrued as this amount is necessary to support our planned ongoing investments in our foreign operations. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S., and we do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the U.S. Under current tax laws, should our plans change and we were to choose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., such amounts would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

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.

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 and stock repurchases for the foreseeable future.

Subsequent to September 30, 2016, we sold most of our investment in MercadoLibre, Inc. for \$1.2 billion.

Off-Balance Sheet Arrangements

As of September 30, 2016, 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, 2016, we had a total of \$1.2 billion in cash withdrawals offsetting our \$1.2 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 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 consolidated

statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

As of September 30, 2016, approximately 15% of our total cash and investment portfolio was held in cash and cash equivalents. As such, changes in interest rates will impact interest income. As discussed below, fixed rate securities may have their fair market value 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 December 31, 2013, 100% of the outstanding senior notes bore interest at fixed rates. In July 2014, we issued additional senior notes in an aggregate principal amount of \$3.5 billion comprised of \$850 million of floating rate notes and \$2.65 billion of fixed rate notes, as described in the “Shelf Registration Statement and Long-Term Debt” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations (Item 2) in this Quarterly Report. In order to reduce volatility that may result from changes in interest 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 2.2% 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.

As of September 30, 2016, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

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. As of September 30, 2016, the balance of our government bond and corporate debt securities portfolio was \$8.6 billion, which represented approximately 72% of our total cash and investment portfolio. 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, 2016.

Investment Risk

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 portfolio of 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, 2016, our cost and equity method investments totaled \$110 million, which represented approximately 1% of our total cash and investment portfolio, and were primarily related to equity method investments in privately held companies. 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.

Equity Price Risk

We are exposed to equity price risk on marketable equity instruments due to market volatility. As of September 30, 2016, the total fair value of our marketable equity instruments (primarily related to our equity holdings in MercadoLibre) was \$1.5 billion, which represented approximately 13% of our total cash and investment portfolio.

Subsequent to September 30, 2016, we sold most of our investment in MercadoLibre, Inc. for \$1.2 billion.

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 consolidated cash flows and results of operations through the purchase of foreign currency exchange contracts. The effectiveness of the program and the resulting usage of foreign exchange derivative contracts is at times limited by our ability to achieve cash flow hedge accounting. Subsequent to the distribution of PayPal, fewer of our currency flows meet the U.S. GAAP criteria for cash flow hedge accounting. While, economically, we face the same currency risks, our statement of income is more subject to volatility due to currency fluctuations. These foreign currency exchange contracts are accounted for as derivative instruments; for additional details related to our derivative instruments, please see “Note 9 – Derivative Instruments” to our condensed consolidated financial statements included in this report.

We use foreign exchange derivative contracts and invest non-U.S. cash in U.S. denominated investments to ultimately 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 effective portion of 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. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in 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.

Certain of our foreign subsidiaries held U.S. denominated marketable securities at September 30, 2016. The U.S. dollar/Euro is the primary foreign exchange exposure for these nonfunctional currency denominated marketable securities. These marketable securities are classified as available-for-sale and as such, fluctuations in the foreign exchange are recorded in accumulated other comprehensive income within the condensed consolidated balance sheet. These fluctuations are subsequently reclassified from accumulated other comprehensive income to interest and other, net in the period in which the marketable securities are sold. The realized foreign exchange gains and losses on these securities offset a portion of the foreign exchange fluctuations in earnings for the company.

The following table illustrates the fair values of outstanding foreign exchange contracts designated as cash flow hedges and nonfunctional currency denominated marketable securities and the before-tax effect on fair values of a hypothetical adverse change in the foreign exchange rates that existed at September 30, 2016. The sensitivities for foreign currency contracts and nonfunctional currency denominated marketable securities are based on a 20% adverse change in foreign exchange rates, against relevant functional currencies.

| | Fair Value | Fair Value |
|---|-------------------|-------------|
| | Asset/(Liability) | Sensitivity |
| | (In millions) | |
| Foreign exchange contracts - Cash flow hedges | \$ 73 | \$ (61) |
| Marketable Securities | \$ 1,205 | \$ (241) |

A hypothetical adverse change of 20% in the foreign exchange rates at September 30, 2016, would have resulted in (1) a before-tax loss of \$61 million and \$241 million to be recorded in AOCI related to foreign exchange contracts designated as cash flow hedges and nonfunctional currency denominated marketable securities.

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

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 \$12 million at September 30, 2016 taking into consideration the offsetting effect of foreign exchange forwards in place as of September 30, 2016.

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) required by Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during the period covered by this report 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 11 — 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 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 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, Apple, Google and Facebook, 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, Sears, Macy's, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam's Club, Rakuten, Yahoo! Shopping, 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.

Our online shopping comparison websites (Shopping.com) compete with sites such as Google Shopping, Rakuten, Nextag.com, Pricegrabber.com, Shopzilla, Buscapé in Latin America (owned by Naspers) and Yahoo! Product Search, which offer shopping search engines that allow consumers to search the Internet for specified products. 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, Yahoo!, Naver and Baidu. 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.

Consumers and merchants who might use our sites to sell goods also have many alternatives, including general ecommerce sites, such as Amazon and Alibaba, 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. 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. For example:

In Turkey, local prosecutors and courts are investigating our liability for allegedly illegal actions by users of our Turkish Marketplace business (GittiGidiyor). In accordance with local law and custom, they have indicted one or more members of the board of directors of our local Turkish subsidiary. We intend to defend vigorously against any such actions and a growing number of these cases have been dismissed by the relevant courts.

In August 2012, we were informed that U.S. listings of footwear with religious imagery were visible on our local Indian site and we immediately removed these listings. In September 2012, a criminal case was registered against us in India in regard to these listings, and we are challenging the prosecution of this case.

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.

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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 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:

- repatriate funds to the United States at substantial tax cost;
- 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 and users may be subject to sales tax 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 and to our users 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 the Internet or ecommerce. In addition, governments are increasingly looking for ways to increase revenues, which has resulted in discussions about tax reform and other legislative action to increase tax revenues, including through indirect taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain.

We do not collect taxes on the goods or services sold by users of our services. However, some jurisdictions have implemented, or may implement, laws that require remote sellers of goods and services to collect and remit taxes on sales to customers located within the jurisdiction. In particular, the Streamlined Sales Tax Project (an ongoing, multi-year effort by U.S. state and local governments to pursue federal legislation that would require collection and remittance of sales tax by out-of-state sellers) could allow states that meet certain simplification and other criteria to require out-of-state sellers to collect and remit sales taxes on goods purchased by in-state residents. The adoption of such legislation could result in a use tax collection responsibility for certain of our sellers. This collection responsibility and the additional costs associated with complex use tax collection, remittance and audit requirements would make selling on our websites and mobile platforms less attractive for small business retailers and would harm our business, and the proliferation of state legislation to expand sales and use tax collection on Internet sales could adversely affect some of our sellers and indirectly harm our business.

Several proposals have been made at the U.S. state and local levels that would impose additional taxes on the sale of goods and services over the Internet. These proposals, if adopted, could substantially impair the growth of ecommerce and our brands, and could diminish our opportunity to derive financial benefit from our activities. While the U.S. federal government’s moratorium on state and local taxation of Internet access or multiple or discriminatory taxes on ecommerce has been temporarily extended, this moratorium does not prohibit federal, state or local authorities from collecting taxes on our income or from collecting certain taxes that were in effect prior to the enactment of the moratorium and/or one of its extensions.

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. We have been paying VAT on fees charged to certain of our users in the European Union based on the service provider's location. On January 1, 2015, changes to the rules determining the place of supply (and thus the country of taxation) for all European Union based providers of electronically supplied services were implemented that require that we pay VAT based on the residence or normal place of business of our customers. These changes may result in our paying a higher rate of VAT on such 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 taxes and may ask us to remit additional taxes, as well as the proper calculation of such taxes. Should any new taxes become applicable or if the taxes we pay are found to be deficient, our business could be harmed.

A taxing authority may seek to impose a tax collection, reporting or record-keeping obligation on companies that engage in or facilitate ecommerce. For example, the U.S. Internal Revenue Service (IRS) now requires that certain payments to sellers be reported to the sellers and the IRS on an annual basis. Any failure by us to meet these requirements could result in substantial monetary penalties and other sanctions and could harm our business. Taxing authorities may also seek to impose tax collection or reporting obligations based on the location of the product or service being sold or provided in an ecommerce transaction, regardless of where the respective users are located. Some jurisdictions could assert that we are responsible for tax on the underlying goods or services sold on our sites. Imposition of a record keeping or tax collecting requirement could decrease seller activity on our sites and would harm our business. Tax authorities may also require us to help ensure compliance by our users by promulgating legislation regulating professional sellers, including tax reporting and collection requirements. In addition, we have periodically received requests from tax authorities in many jurisdictions 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, could decrease seller activity on our sites and harm our business.

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 tax 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. For example, the economic downturn reduced tax revenues for United States federal and state governments, and a number of proposals to increase taxes from corporate entities have been implemented or are being considered at various levels of government. These include a number of proposals to modify the U.S. federal income tax laws applicable to companies, like ours, operating in multiple U.S. and foreign jurisdictions which, if enacted,

could materially increase our effective tax rate. 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.

We may be subject to sales reporting and record-keeping obligations.

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 (and legislation to such effect has been contemplated by several states and a number of foreign jurisdictions) 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 Internal Revenue Service (IRS) on customers subject to U.S. income tax who receive more than \$20,000 in payments and more than 200 payments in a calendar year. 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. We have modified our systems to meet these requirements and expect increased operational costs and changes to our user experience in connection with complying with these reporting obligations. Any failure by us to meet these requirements could result in substantial monetary penalties and other sanctions and could 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

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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, and strategic investments could result in operating difficulties and could harm our business.

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 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.

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. In addition, the U.S. Postal Service, which is facing ongoing fiscal challenges, has instituted postal rate increases and announced that it is considering closing thousands of local post offices and ending Saturday mail delivery. 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.

The Distribution may not achieve some or all of the anticipated benefits and may adversely affect our business.

We may not realize some or all of the anticipated benefits from the Distribution and the Distribution may in fact adversely affect our business. As an independent, publicly traded company, we will be a smaller, less diversified company with a narrower business focus and may be more vulnerable to changing market conditions, which could materially and adversely affect our business, financial condition and results of operations. Separating the businesses may also eliminate or reduce synergies or economies of scale that existed prior to the Distribution, 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, 2016 was as follows:

| Period Ended | Total Number of Shares Purchased | Average Price Paid per Share ⁽²⁾ | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Dollar Value that May Yet be Purchased Under the Programs ⁽¹⁾ |
|--------------------|----------------------------------|---|---|--|
| July 31, 2016 | 3,035,278 | \$ 23.73 | 3,035,278 | |
| August 31, 2016 | 4,996,700 | \$ 31.21 | 4,996,700 | |
| September 30, 2016 | 8,473,100 | \$ 32.11 | 8,473,100 | \$2,336,235,496 |
| | 16,505,078 | | 16,505,078 | |

In January 2015, our Board authorized a stock repurchase program that provided for the repurchase of up to an additional \$2 billion of our common stock. In June 2015, our Board authorized an additional \$1 billion stock repurchase program and in July 2016, our board of directors authorized an additional \$2.5 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, in addition, subject to market conditions and other factors, to make opportunistic repurchases of our common stock to reduce 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, 2016, we repurchased approximately \$500 million of our common stock under our stock repurchase programs. As of September 30, 2016, a total of approximately \$2,336 million remained available for future repurchases of our common stock under our July 2016 repurchase program.

We expect, subject to market conditions and other uncertainties, to continue making opportunistic 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.

(2) 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 of Exhibits that follows the signature page of this Quarterly Report.

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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 20, 2016

Principal Financial Officer:

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

Date: October 20, 2016

Principal Accounting Officer:

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

Date: October 20, 2016

INDEX TO EXHIBITS

| Exhibit Number | Description |
|-------------------|--|
| 12.01 | Statement regarding computation of ratio of earnings to fixed charges. |
| 31.01 | Certification of Registrant's Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.02 | Certification of Registrant's Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.01 | Certification of Registrant's Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.02 | Certification of Registrant's Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 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 |