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EBAY INC

Form 10-K

January 30, 2019

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$33,679,134,490 based on the closing sale price as reported on The Nasdaq Global Select Market.

914,880,451 shares of common stock issued and outstanding as of January 25, 2019.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information by reference from the definitive proxy statement for the registrant's Annual Meeting of Stockholders expected to be held on May 30, 2019.

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**eBay Inc.**  
**Form 10-K**  
**For the Fiscal Year Ended December 31, 2018**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b>Part I</b>	
Item 1. Business	<u>4</u>
Item 1A. Risk Factors	<u>10</u>
Item 1B. Unresolved Staff Comments	<u>28</u>
Item 2. Properties	<u>29</u>
Item 3. Legal Proceedings	<u>30</u>
Item 4. Mine Safety Disclosures	<u>31</u>
<b>Part II</b>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>32</u>
Item 6. Selected Financial Data	<u>34</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>36</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>55</u>
Item 8. Financial Statements and Supplementary Data	<u>57</u>
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	<u>57</u>
Item 9A. Controls and Procedures	<u>57</u>
Item 9B. Other Information	<u>57</u>
<b>Part III</b>	
Item 10. Directors, Executive Officers and Corporate Governance	<u>58</u>
Item 11. Executive Compensation	<u>58</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>58</u>
Item 13. Certain Relationships and Related Transactions and Director Independence	<u>58</u>
Item 14. Principal Accountant Fees and Services	<u>58</u>
<b>Part IV</b>	
Item 15. Exhibits and Financial Statement Schedule	<u>59</u>
Item 16. Form 10-K Summary	

## **PART I**

### **FORWARD-LOOKING STATEMENTS**

*This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan” and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in “Item 1A: Risk Factors” of this Annual Report on Form 10-K, as well as in our 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.*

### **ITEM 1: BUSINESS**

#### **Overview**

eBay Inc. was formed as a sole proprietorship in September 1995 and was incorporated in California in May 1996. In April 1998, we reincorporated in Delaware, and in September 1998, we completed the initial public offering of our common stock. Our principal executive offices are located at 2025 Hamilton Avenue, San Jose, California 95125, and our telephone number is (408) 376-7400. Unless otherwise expressly stated or the context otherwise requires, when we refer to “we,” “our,” “us” or “eBay” in this Annual Report on Form 10-K, we mean eBay Inc. and its consolidated subsidiaries. When we refer to “eBay Inc.” we mean our Marketplace, StubHub and Classifieds platforms.

eBay Inc. is a global commerce leader, which includes our Marketplace, StubHub and Classifieds platforms. Collectively, we connect millions of buyers and sellers around the world, empowering people and creating opportunity for all. Our technologies and services are designed to give buyers choice and a breadth of relevant inventory and to enable sellers worldwide to organize and offer their inventory for sale, virtually anytime and anywhere. Our Marketplace platforms include our online marketplace located at [www.ebay.com](http://www.ebay.com), its localized counterparts and the eBay suite of mobile apps. We believe that these are among the world’s largest and most vibrant marketplaces for discovering great value and unique selection. Our StubHub platforms include our online ticket platform located at [www.stubhub.com](http://www.stubhub.com), its localized counterparts and the StubHub mobile apps. These platforms connect fans with their favorite sporting events, shows and artists and enable them to buy and sell millions of tickets annually, whenever and wherever they want. Our Classifieds platforms include a collection of brands such as [mobile.de](http://mobile.de), [Kijiji](http://Kijiji), [Gumtree](http://Gumtree), [Marktplaats](http://Marktplaats), [eBay Kleinanzeigen](http://eBay Kleinanzeigen) and others. Offering online classifieds around the world, these platforms help people find what they are looking for in their local communities.

Our platforms are accessible through a traditional online experience (e.g., desktop and laptop computers), mobile devices (e.g., smartphones and tablets) and our application programming interfaces or APIs (platform access for third party software developers). Our multi-screen approach offers downloadable, easy-to-use applications for iOS and Android mobile devices that allow access to [ebay.com](http://ebay.com) and some of our other websites and vertical shopping experiences. In addition, our platform is increasingly based on open source technologies that provide industry-standard ways for software developers and merchants to

access our APIs and develop software and solutions for commerce.

4

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## **Our Strategy**

### *Delivering the best choice, the most relevance and the most powerful selling platform*

Our strategy is to drive the best choice, the most relevance and the most powerful selling platform for our buyers and sellers. We focus on connecting buyers and sellers through simplified experiences to make it easier for users to list, buy and sell items.

On our Marketplace platform, our strategy is to drive the best choice by attracting and retaining sellers and brands that bring differentiated inventory to eBay and provide our consumers with great selection and value. This includes new, everyday items as well as rare and unique goods, many of which are available with free shipping and delivery in three business days or less. We are in the midst of a multi-year transformation of our platform to deliver a shopping experience that is designed to attract new buyers and that is highly personalized, modern and engaging for users. To help deliver the most relevance to buyers, we are innovating shopping experiences tailored to each user's interests, passions and shopping history. Leveraging a foundation of structured data — our initiative to better understand, organize and leverage inventory on eBay — we are progressing toward a more personalized, discovery-based user experience and making it easier for customers to find inventory both on and off eBay. We focus on offering a powerful selling platform for our business and consumer sellers by continuing to expand adoption of our Seller Hub product, a tool that helps sellers run their eBay business, while adding new capabilities to enable sellers to build their businesses and drive profitable sales on eBay.

As one of the world's largest ticket marketplaces, StubHub brings the joy of live events to fans around the world. In 2018, more than 240 million unique visitors came from 64 countries to StubHub to buy or sell tickets to live sports, music, theater and other events. StubHub business partners include more than 150 leagues, teams, venues, events or other major third party companies in the U.S. and internationally across major sports leagues such as the NFL, MLB, NBA, NHL, and the NCAA. We aim to continue extending StubHub's reach by focusing on supply expansion, which includes increasing consumer selling on our site, and broadening StubHub's international footprint.

A world leader in online classifieds, eBay Classifieds is designed to help people list their products and services, generally for free, find what they are looking for in their local communities and trade at a local level. eBay Classifieds Group's brands offer both horizontal and vertical experiences, such as motors, real estate and jobs. We offer a personalized classifieds experience and focus on expanding our value proposition by leveraging data and analytics to improve customer relevance and grow the classifieds opportunity on mobile.

### *Business model and pricing*

On our eBay and StubHub platforms, our business model and pricing are designed so that our business is successful primarily when our sellers are successful. We make money primarily through fees collected on successfully closed sales. On our Classifieds platform, we monetize our business primarily through advertising.

The size and scale of our platforms are designed to enable our buyers and sellers to leverage our economies of scale and capital investments, such as in sales and marketing, mobile, customer acquisition and customer service.

### *Our offerings for buyers and sellers*



We provide a number of features for our buyers and sellers that are designed to build trust, help users feel more comfortable buying and selling on our platforms and reward our top sellers for their loyalty.

*For our buyers we offer:*

Breadth of inventory and spectrum of value

Multiple delivery options through eBay Guaranteed Delivery

- eBay's 110% Best Price Guarantee across select products in the United States

Under \$10 offerings

Confidence in purchasing products through Money Back Guarantee and eBay Authenticate

We believe that, through our sellers, eBay offers some of the best value and deals available for a number of consumer products. The majority of our transactions on the eBay Marketplace in the U.S., the U.K. and Germany include free shipping, and we encourage sellers to offer free returns. Through eBay Guaranteed Delivery, we provide faster and more precise delivery dates on more than 100 million eligible items. In 2018, we introduced Best Price Guarantee, which offers shoppers in the United States 110 percent of the price difference if they find an item for less on a competitor's website, replacing our former Price Match Guarantee offering. In 2018, we also launched a new shopping destination called Under \$10, which features millions of new items in more than a hundred categories, all priced for \$10 or under with free shipping, no bidding required.

In order to further strengthen our buyers' confidence and trust in our services, in late 2017, we unveiled eBay Authenticate, in which sellers can have their high-end handbags authenticated by eBay. In 2018, we expanded the service to apply to luxury watches and jewelry. Through the service, thousands of watches and handbags from sought-after brands are marked with an "Authenticity Verified" label. The program has also expanded beyond the United States into several European markets, including the United Kingdom and Germany. Another feature intended to secure our customers' confidence is eBay Money Back Guarantee, which allows buyers to get their money back if the item they ordered does not arrive, is faulty or damaged, or if it does not match the listing. eBay Money Back Guarantee covers most items purchased on the eBay platform in a number of countries, including the U.S., the U.K., Germany and Australia, through a qualifying payment method. Some purchases, including some vehicles, are not covered.

We continue to explore new tools and features that are intended to create a better buying experience on eBay. We launched Interests in 2018, allowing users to personalize their shopping experience. To assist consumers looking to buy automotive parts on eBay, we launched our Shop by Diagram feature, which lets shoppers use interactive schematics to determine which parts are necessary for their vehicles and then makes the items they need available for purchase. We also enhanced our My Garage experience last year, allowing buyers to shop a personalized "virtual garage" of parts and accessories tailored specifically to their vehicles.

*For our sellers we offer:*

- Choice to list products and services through fixed price listings or an auction-style format on our platforms.
- Ability to list items that are new, refurbished and used, and common and rare on our Marketplace platforms.
- Offerings that improve the visibility of item listings so that items have a better chance of standing out and selling faster, such as Promoted Listings.
- Fee discounts and improved search standing for qualifying listings through eBay's Top Rated Seller program.
- Insights about optimal listing and pricing approaches through our Seller Hub portal.

At eBay, we only win when our sellers succeed. We partner with them but do not compete, investing in the tools and technologies they can leverage to grow and thrive. For example, eBay's Top Rated Seller program rewards qualifying sellers with fee discounts and improved search standing for qualifying listings if they are able to maintain excellent customer service ratings and meet specified criteria for shipping and returns. We believe that sellers who fulfill these standards help promote our goal of maintaining an online marketplace that is safe and hassle-free. In 2018, we also added analytics tools and merchandising tools to our Seller Hub portal for sellers that are designed to make selling on eBay even easier so that sellers know what to sell, when to sell it and at what price. eBay regularly evaluates pricing relative to alternatives in the market in order to remain competitive, and we continue to invest in more tools and new programs intended to help grow the overall seller ecosystem.

## **Our Impact and Responsibility**

eBay is committed to creating economic opportunity for all. We work to generate this opportunity through a variety of means, both on our platform and in our communities around the world.

For more than two decades, we have worked to create a dynamic online marketplace that is inclusive and fair, fosters global trade and empowers entrepreneurship. By connecting buyers and sellers around the world, we are creating tools designed to enable them to extend the reach of their businesses far beyond their local markets, enriching their lives, livelihoods and communities in the process.

We embrace the potential of eCommerce to level the playing field and fuel sustainable growth for all businesses, regardless of their size or location. We also embrace our responsibility to help businesses access the technology and tools they need to sell online and effectively compete in this ever-changing economy. This is the driving motivation behind Retail Revival, which launched in early 2018, where we partner with select cities to bring their local brick-and-mortar businesses online, providing access to new customers around the world. Participating businesses receive in-

depth training, dedicated coaching and promotional support designed to enable their successful expansion into the digital marketplace. To date we have partnered with Akron, Ohio, and Lansing, Michigan, in the United States and Wolverhampton in the United Kingdom. We plan to launch 2 to 3 new cities during 2019 to further scale this initiative.

We also enable eBay users to support over 60,000 nonprofit organizations in the U.S. and internationally through our eBay for Charity platform. Since its inception approximately 17 years ago, eBay for Charity has helped raise nearly \$912 million for nonprofits. Our goal is to increase this number to \$1.0 billion by 2020.

Finally, we strive to operate in an environmentally and socially sustainable way. For example, eBay is working to protect the world's most endangered and threatened species from illegal trade. We are proud to be a founding member of the Global Coalition to End Wildlife Trafficking Online, which aims to reduce illegal trafficking online by 80 percent by 2020. To reduce our company's environmental impact, we are focused on moving to 100 percent renewable energy in our electricity supply at eBay data centers and offices by 2025. This initiative is designed to not only substantially cut the energy consumption at our data centers, but also reduce the environmental impact of transactions on eBay.

## **Financial Information**

We measure our footprint in our addressable market according to Gross Merchandise Volume ("GMV"). GMV consists of the total value of all successfully closed transactions between users on our Marketplace or StubHub platforms during the applicable period, regardless of whether the buyer and seller actually consummated the transaction. In 2018, we generated \$95 billion in GMV, of which approximately 60 percent was generated outside the U.S.

At the end of 2018, our Marketplace and StubHub platforms had more than 179 million active buyers and over one billion live listings globally. The term "active buyer" means, as of any date, all buyers who successfully closed a transaction on our Marketplace or StubHub platforms within the previous 12-month period. Buyers may register more than once and, as a result, may have more than one account.

We generate revenue primarily from the transactions we successfully enable and through marketing services, including classifieds and advertising. The majority of our revenue comes from a take rate on the GMV of transactions closed on our Marketplace and StubHub platforms. We define "take rate" as net transaction revenues divided by GMV.

## **Notable Business Transactions in 2018**

We regularly review and manage our investments to ensure that they support eBay's strategic direction and complement our disciplined approach to value creation, profitability and capital allocation. In the second quarter of 2018, we completed the acquisition of Giosis Pte. Ltd.'s ("Giosis") Japan business, including the Qoo10.jp platform, in exchange for \$306 million in cash and the relinquishment of our existing equity method investment in Giosis, which allows us to offer Japanese consumers access to more inventory and grows our international presence. In the third quarter of 2018, we sold our equity investment in Flipkart, for cash proceeds of approximately \$1.0 billion. In the fourth quarter of 2018, we announced our intention to acquire the U.K.-based classifieds site, Motors.co.uk. We believe the acquisition will increase our international presence and give buyers access to more listings. We expect to close this transaction in the first half of 2019, subject to customary closing conditions and regulatory approvals.

## **Competition**

We encounter vigorous competition in our business from numerous sources. Our users can list, buy, sell and pay for similar items through a variety of competing online, mobile and offline channels. These include, but are not limited to, retailers, distributors, liquidators, import and export companies, auctioneers, catalog and mail-order companies, classifieds, directories, search engines, commerce participants (consumer-to-consumer, business-to-consumer and business-to-business), shopping channels and networks. As our product offerings continue to broaden into new categories of items and new commerce formats, we expect to face additional competition from other online, mobile and offline channels for those new offerings. We compete on the basis of price, product selection and services.

For more information regarding risks of competition, see the information in “Item 1A: Risk Factors” under the captions “Substantial and increasingly intense competition worldwide in ecommerce may harm our business” and “We are subject to regulatory activity and antitrust litigation under competition laws.”

To compete effectively, we will need to continue to expend significant resources in technology and marketing. These efforts require substantial expenditures, which could reduce our margins and have a material adverse effect on our business, financial position, operating results and cash flows and reduce the market price of our common stock and outstanding debt securities. Despite our efforts to preserve and expand the size, diversity and transaction activity of our buyers and sellers and to enhance the user experience, we may not be able to effectively manage our operating expenses, to increase or maintain our revenue or to avoid a decline in our consolidated net income or a net loss.

## **Government Regulation**

Government regulation impacts key aspects of our business. In particular, we are subject to laws and regulations that affect the ecommerce industry in many countries where we operate. For more information regarding regulatory risks, see the information in “Item 1A: Risk Factors” under the caption “Our business is subject to extensive government regulation and oversight.”

## **Seasonality**

We expect transaction activity patterns on our platforms to mirror general consumer buying patterns. Please see the additional information in “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Seasonality.”

## **Technology**

eBay Inc.’s platforms use a combination of proprietary technologies and services as well as technologies and services provided by others. We have developed intuitive user interfaces, buyer and seller tools and transaction processing, database and network applications that help enable our users to reliably and securely complete transactions on our sites. Our technology infrastructure simplifies the storage and processing of large amounts of data, eases the deployment and operation of large-scale global products and services and automates much of the administration of large-scale clusters of computers. Our infrastructure has been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences.

For information regarding technology-related risks, see the information in “Item 1A: Risk Factors” under the caption “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.”

In support of our ongoing commitment to innovation and a better customer experience, we have been on a multi-year evolution to modernize our marketplace. Our aim is to create a fully relevant and personalized shopping experience, built on a foundation of structured data and leveraging advanced technologies like artificial intelligence and computer vision. Our goal is to make every product image on the Internet shoppable, with features such as Image Search, Find It On eBay, and our drag-and-drop search capabilities.

To ensure that the technology supporting these features and capabilities is as efficient, scalable, and secure as possible, we are also undergoing an ambitious three-year effort to re-platform our backend infrastructure. As part of that effort, in 2018, we announced that we are developing our own custom-designed servers, built by eBay, for eBay.

## **Intellectual Property**

We regard the protection of our intellectual property, including our trademarks (particularly those covering the eBay name), patents, copyrights, domain names, trade dress and trade secrets as critical to our success. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. We routinely enter into confidentiality and invention assignment agreements with our employees and contractors and nondisclosure agreements with parties with whom we conduct business to limit access to and disclosure of our proprietary information.

We pursue the registration of our domain names, trademarks and service marks in the U.S. and internationally. Additionally, we have filed U.S. and international patent applications covering certain aspects of our proprietary technology. Effective trademark, copyright, patent, domain name, trade dress and trade secret protection is typically 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.

We have registered our core brands as trademarks and domain names in the U.S. and a large number of other jurisdictions and have in place an active program to continue to secure trademarks and domain names that correspond to our brands in markets of interest. If we are unable to register or protect our trademarks or domain names, we could be adversely affected in any jurisdiction in which our trademarks or domain names are not registered or protected. 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.

From time to time, third parties have claimed - and others will likely claim in the future - that we have infringed their intellectual property rights. We are typically involved in a number of such legal proceedings at any time. Please see the information in "Item 3: Legal Proceedings" and in "Item 1A: Risk Factors" under the captions "We are subject to patent litigation," "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," and "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."

## **Employees**

As of December 31, 2018, we employed approximately 14,000 people globally. Approximately 7,100 of our employees were located in the U.S.

## **Available Information**

Our Internet address is [www.ebay.com](http://www.ebay.com). Our investor relations website is located at [investors.ebayinc.com](http://investors.ebayinc.com). We make available free of charge on our investor relations website under the heading "Financial Information - SEC Filings" our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with (or furnished to) the SEC.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs on our investor relations website. Further corporate governance information, including our governance guidelines for our Board of Directors ("Board"), board committee charters and code of conduct, is also available on our investor relations website under the heading "Corporate Governance."

The contents of our websites and webcasts and information that can be accessed through our websites and webcasts are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with (or furnish to) the SEC, and any references to our websites and webcasts are intended to be inactive textual references only.



## 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. In addition, certain platform businesses, such as Alibaba, Amazon, Apple, Facebook and Google, many of whom are larger than us or have greater capitalization, have a dominant and secure position in other industries or certain significant markets, and offer other goods and services to consumers and merchants that we do not offer. If we are unable to

change our products, offerings and services in ways that reflect the changing demands of ecommerce and mobile commerce marketplaces, particularly the higher growth of sales of fixed-price items and higher expected service levels (some of which depend on services provided by sellers on our platforms), or compete effectively with and adapt to changes in larger platform businesses, our business will suffer.

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

10

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

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

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

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

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

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

In addition, certain manufacturers may limit or cease distribution of their products through online channels, such as our sites. Manufacturers may attempt to use contractual obligations or existing or future

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

The principal competitive factors for us include the following:

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

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

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

Our operations and performance depend significantly on global and regional economic conditions. Adverse economic conditions and events (including volatility or distress in the equity and/or debt or credit markets) have in the past negatively impacted regional and global financial markets and will likely continue to do so from time to time in the future. These events and conditions, including uncertainties and instability in economic and market conditions caused by the United Kingdom's vote to exit the European Union and any outcomes resulting from that vote, 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 and any outcomes resulting from that vote;
- 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 and any outcomes resulting from that vote, 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 or continue to innovate and create new initiatives to provide new 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 and we cannot predict the effect of technological changes on our business. We also continuously strive to create new initiatives and innovations that offer growth opportunities, such as our new payments and advertising offerings. 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 our users, 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. In addition, we are, or may become, subject to further regulation in some of the above-mentioned areas or new areas as a result of our new payments capabilities.

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

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

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

Regulatory scrutiny of privacy, user data protection, use of data and data collection is increasing on a global basis. We are subject to a number of privacy and similar laws and regulations in the countries in which we operate and these laws and regulations will likely continue to evolve over time, both through regulatory and legislative action and judicial decisions. For example, the General Data Protection Regulation (“GDPR”) was approved by the European Union Parliament in April 2016 and became effective in May 2018. The GDPR was designed to harmonize and enhance data privacy laws across Europe. Some of these laws impose requirements that are inconsistent with one another, yet regulators may claim that both apply. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and violations of privacy-related laws can result in significant penalties. In addition, compliance with these laws may restrict our ability to provide services to our customers that they may find to be valuable. A determination that there have been violations of laws relating to our practices under communications-based laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business. In particular, because of the enormous number of texts, emails and other communications we send to our users, communications laws that provide a specified monetary damage award or fine for each violation (such as those described below) could result in particularly large awards or fines.

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

expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

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

*Other laws and regulations could harm our business.*

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

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

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

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

As we expand and localize our international activities, we are increasingly becoming obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to users worldwide, one or more

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

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

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

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

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

We are subject to scrutiny by various government agencies under U.S. and foreign laws and regulations, including competition laws. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies and government agencies have in the past and may in the future allege that our actions violate the antitrust or competition laws of the United States, individual states, the European Commission or other countries, or otherwise constitute unfair competition. An increasing number of governments are regulating competition law activities, including increased scrutiny in large markets such as China. Our business partnerships or agreements or arrangements with customers or other companies could give rise to regulatory action or antitrust litigation. Some regulators, particularly those outside of the United States, may perceive our business to be used so broadly that otherwise uncontroversial business practices could be deemed anticompetitive. Certain competition authorities have conducted market studies of our industries. Such claims and investigations, even if without foundation, may be very expensive to defend, involve negative publicity and substantial diversion of management time and effort and could result in significant judgments against us or require us to change our business practices.

*We are subject to patent litigation.*

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

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

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



*We are exposed to fluctuations in interest rates.*

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

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

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

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

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

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

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

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

A portion of the tickets inventory sold by sellers on the StubHub platform is processed by StubHub in digital form. Systems failures, security breaches, theft or other disruptions that result in the loss of such sellers' tickets inventory, could result in significant costs and a loss of consumer confidence in our tickets business. Lawsuits alleging a variety of causes of actions have in the past, and may in the future, be filed against StubHub and eBay by venue owners, competitors, ticket buyers, and unsuccessful ticket buyers. Such lawsuits could result in significant costs and require us to change our business practices in ways that negatively affect our tickets business.

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

- Some sports teams have threatened to revoke the privileges of season ticket owners if they resell their tickets through a platform that is not affiliated with, or approved by, such sports teams. To the extent that StubHub holds ticket inventory, we may be exposed to losses associated with such inventory.

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

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

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

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

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

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

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

Our eBay Money Back Guarantee program represents the means by which we compensate users who believe that they have been defrauded, have not received the item that they purchased or have received an item different from what was described. In addition, as we roll out our new payments capabilities, we may be exposed to losses associated with compensating our sellers for fraudulent payments. 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 our buyer protection program, which in the United States we refer to as the eBay Money Back Guarantee, or as we roll out our new payments capabilities, by compensating our sellers for fraudulent payments. Although we have implemented

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

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

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

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

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

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

Our revolving credit facility and the indenture pursuant to which certain of our outstanding debt securities were issued contain, and any debt instruments we enter into in the future may contain, financial and other covenants that restrict or could restrict, among other things, our business and operations. If we fail to pay amounts due under, or breach any of the covenants in, a debt instrument, then the lenders would typically have the right to demand immediate repayment of all borrowings thereunder (subject in certain cases to grace or cure period). Moreover, any such acceleration and required repayment of or default in respect of any of our indebtedness could, in turn, constitute an event of default under other debt instruments, thereby resulting in the acceleration and required repayment of that other indebtedness. Any of these events could materially adversely affect our liquidity and financial condition.





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

One or more states, the U.S. federal government or foreign countries may seek to impose reporting or record-keeping obligations on companies that engage in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance or if one of our companies was ever deemed to be the legal agent of the users of our services by a jurisdiction in which it operates. Certain of our companies are required to report to the IRS and most states on customers subject to U.S. income tax if they reach certain payment thresholds. As a result, we are required to request tax identification numbers from certain payees, track payments by tax identification number and, under certain conditions, withhold a portion of payments and forward such withholding to the IRS. Our systems are able to meet these requirements. These obligations can increase operational costs and change our user experience.

Any failure by us to meet these requirements could result in substantial monetary penalties and other sanctions and could harm our business. Imposition of an information reporting requirement could decrease seller or buyer activity on our sites and would harm our business.

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

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

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

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

We may also need to expend significant additional resources to protect against security breaches or to redress problems caused by breaches. These issues are likely to become more difficult and costly as we expand the number of markets where we operate. Additionally, our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches and we may not

be able to fully collect, if at all, under these insurance policies.

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

Our systems may experience service interruptions or degradation due to of hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses, or other events. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism. Some of our systems are not fully redundant and our disaster recovery planning is not sufficient for all eventualities.

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

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

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

These transactions may involve significant challenges and risks, including:

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

risks associated with our expansion into new international markets;  
derivative lawsuits resulting from the acquisition or disposition;  
liability for activities of the acquired or disposed of company before the transaction, including intellectual property and other litigation claims or disputes, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities and, in the case of dispositions, liabilities to the acquirors of those businesses under contractual provisions such as representations, warranties and indemnities;  
the potential loss of key employees following the transaction;  
the acquisition of new customer and employee personal information by us or a third party acquiring assets or businesses from us, which in and of itself may require regulatory approval and or additional controls, policies and procedures and subject us to additional exposure; and  
our dependence on the acquired business' accounting, financial reporting, operating metrics and similar systems, controls and processes and the risk that errors or irregularities in those systems, controls and



processes will lead to errors in our consolidated financial statements or make it more difficult to manage the acquired business.

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

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

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

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

Our future performance depends substantially on the continued services of our senior management and other key personnel, including key engineering and product development personnel, and our ability to attract, retain, and motivate key personnel. Competition for key personnel is intense, especially in the Silicon Valley where our corporate headquarters are located, and we may be unable to successfully attract, integrate, or retain sufficiently qualified key personnel. In making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the equity awards they would receive in connection with their employment and fluctuations in our stock price may make it more difficult to attract, retain, and motivate employees. In addition, we do not have long-term employment agreements with any of our key personnel and do not maintain any "key person" life insurance policies. The loss of the services of any of our senior management or other key personnel, or our inability to attract highly qualified senior management and other key personnel, could harm our business.

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

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

Price increases by, or service terminations, disruptions or interruptions at, companies that provide services to us and our sellers and clients could also reduce the number of listings on our platforms or make it more difficult for our sellers to complete transactions, thereby harming our business. Some third parties who provide services to us or our

sellers may have or gain market power and be able to increase their prices to us without competitive constraint. While we continue to work with global carriers to offer our sellers a variety of shipping options and to enhance their shipping experience, postal rate increases may reduce the competitiveness of certain sellers' offerings, and postal service changes could require certain sellers to utilize alternatives which could be more expensive or inconvenient, which could in turn decrease the number of transactions on our sites, thereby harming our business.

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

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

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

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

*We cannot assure that we will continue to pay dividends on our common stock.*

In January 2019, we initiated a quarterly cash dividend on our common stock. The timing, declaration, amount and payment of any future dividends fall within the discretion of our Board of Directors and will depend on many factors, including our available cash, working capital, financial condition, results of operations, capital requirements, covenants in our debt instruments, applicable law and other considerations that our Board of Directors considers relevant. A reduction in the amount of cash dividends on our common stock, the suspension of those dividends or a failure to meet market expectations regarding potential dividend increases could have a material adverse effect on the market price of our common stock. If we do not pay cash dividends on our common stock in the future, realization of a gain on an investment in our common stock will depend entirely on the appreciation of the price of our common stock, which may not occur.

*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. 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 1B: UNRESOLVED STAFF COMMENTS**

Not applicable.

28

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**ITEM 2: PROPERTIES**

We own and lease various properties in the U.S. and 33 other countries around the world. We use the properties for executive and administrative offices, data centers, product development offices, fulfillment centers and customer service offices. Our headquarters are located in San Jose, California and occupies approximately 0.5 million square feet. Our owned data centers are solely located in Utah. As of December 31, 2018, our owned and leased properties provided us with aggregate square footage as follows (in millions):

	United States	Other Countries	Total
Owned facilities	1.3	—	1.3
Leased facilities	0.8	4.3	5.1
Total facilities	2.1	4.3	6.4

From time to time we consider various alternatives related to our long-term facilities needs. While we believe that our existing facilities are adequate to meet our immediate needs, it may become necessary to develop and improve land that we own or lease or acquire additional or alternative space to accommodate any future growth.

### **ITEM 3: LEGAL PROCEEDINGS**

#### 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 of losses arising directly from the proceeding (i.e., monetary damages or amounts paid in judgment or settlement) is not material. If we cannot estimate the probable or reasonably possible loss or range of losses arising from a proceeding, we have disclosed that fact. In assessing the materiality of a proceeding, we evaluate, among other factors, the amount of monetary damages claimed, as well as the potential impact of non-monetary remedies sought by plaintiffs (e.g., injunctive relief) that may require us to change our business practices in a manner that could have a material adverse impact on our business. With respect to the matters disclosed in this Item 3, 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 year ended December 31, 2018. Except as otherwise noted for the proceedings described in this Item 3, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management's expectations, the impact on our operating results or financial condition for that reporting period could be material.

#### General Matters

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 could 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 practices, prices, rules, policies or agreements. Further, the number and significance of these disputes and inquiries are increasing as the political and regulatory landscape changes and, as we have grown larger, our businesses have expanded in scope (both in terms of the range of products and services that we offer and our geographical operations) and our products and services have increased in complexity. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards (including statutory damages for certain causes of action in certain jurisdictions), injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.



## Indemnification Provisions

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

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

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

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

## **ITEM 4: MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

### **ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### ***Common Stock***

Our common stock has been traded on The Nasdaq Global Select Market under the symbol "EBAY" since September 24, 1998. As of January 25, 2019, there were approximately 3,661 holders of record of our common stock, although we believe that there are a significantly larger number of beneficial owners of our common stock.

#### ***Dividend Policy***

To date, we have not paid cash dividends on our stock. In January 2019, our Board of Directors initiated a quarterly cash dividend of \$0.14 per share of common stock to be paid on or about March 20, 2019 to shareholders of record as of March 1, 2019. The timing, declaration, amount and payment of any future cash dividends are at the discretion of the Board of Directors and will depend on many factors, including our available cash, working capital, financial condition, results of operations, capital requirements, covenants in our credit agreement, applicable law and other business considerations that our Board of Directors considers relevant. See "We cannot assure that we will continue to pay dividends on our common stock" under "Item 1A. Risk Factors."

#### ***Performance Measurement Comparison***

The graph below shows the cumulative total stockholder return of an investment of \$100 (and the reinvestment of any dividends thereafter) on December 31, 2013 (the last trading day for the year ended December 31, 2013) in (i) our common stock, (ii) the Nasdaq Composite Index, (iii) the S&P 500 Index and (iv) the S&P 500 Information Technology Index. For the purpose of this graph, the distribution of 100% of the outstanding common stock of PayPal Holdings, Inc. ("PayPal") to our stockholders, pursuant to which PayPal became an independent company, is treated as a non-taxable cash dividend of \$41.46, an amount equal to the opening price of PayPal common stock on July 20, 2015 which was deemed reinvested in eBay common stock at the opening price on July 20, 2015.

Our stock price performance shown in the graph below is not indicative of future stock price performance. The graph and related information shall not be deemed "soliciting material" or be deemed to be "filed" with the SEC, nor shall such information be incorporated by reference into any past or future filing with the SEC, except to the extent that such filing specifically states that such graph and related information are incorporated by reference into such filing.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Stock repurchase activity during the three months ended December 31, 2018 was as follows:

Period Ended	Total Number of Shares Purchased	Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet be Purchased Under the Programs <sup>(1)</sup>
October 31, 2018	—	\$ —	—	\$4,650,996,317
November 30, 2018	28,893,212	\$ 28.96	28,893,212	\$3,814,130,578
December 31, 2018	22,930,017	\$ 28.91	22,930,017	\$3,151,117,766
	51,823,229		51,823,229	

(1) In January 2018 our Board authorized a \$6.0 billion stock repurchase program. The stock repurchase program has no expiration from the date of authorization.

Our stock repurchase program is intended to programmatically offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic and programmatic repurchases of our common stock to reduce our outstanding share count. Any share repurchases under our stock repurchase program 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 December 31, 2018, we repurchased approximately \$1.5 billion of our common stock under our stock repurchase program. As of December 31, 2018, a total of approximately \$3.2 billion remained available for future repurchases of our common stock under our stock repurchase program. In January 2019, our Board authorized an additional \$4.0 billion stock repurchase program, with no expiration from the date of authorization.

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

(2) Excludes broker commissions.

**ITEM 6: SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Annual Report on Form 10-K. The consolidated statement of income data for the years ended December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements. The consolidated balance sheet data as of December 31, 2018 and 2017 are derived from our audited consolidated financial statements. The consolidated balance sheet data as of December 31, 2016 has been derived from our audited consolidated financial statements adjusted for the adoption of the ASC 606, *Revenue from Contracts with Customers* (ASC 606). The consolidated statement of income data and consolidated balance sheet data as of and for the years ended December 31, 2015 and 2014 are derived from our audited consolidated financial statements, which have not been adjusted for ASC 606.

	Year Ended December 31,				
	2018 <sup>(5)</sup>	2017 (3)(6)	2016 (3)(7)	2015	2014 <sup>(8)</sup>
	(In millions, except per share amounts)				
<b>Consolidated Statement of Income Data:</b> <sup>(1)</sup>					
Net revenues	\$ 10,746	\$ 9,927	\$ 9,298	\$ 8,592	\$ 8,790
Gross profit	8,364	7,706	7,294	6,821	7,127
Income from operations	2,222	2,264	2,325	2,197	2,476
Income from continuing operations before income taxes	2,718	2,275	3,651	2,406	2,515
Income (loss) from continuing operations	2,528	(1,013 )	7,285	1,947	(865 )
Income (loss) per share from continuing operations:					
Basic	\$2.58	\$(0.95 )	\$6.43	\$1.61	\$(0.69 )
Diluted	\$2.55	\$(0.95 )	\$6.37	\$1.60	\$(0.69 )
Weighted average shares:					
Basic	980	1,064	1,133	1,208	1,251
Diluted	991	1,064	1,144	1,220	1,251

	As of December 31,				
	2018 <sup>(5)</sup>	2017 <sup>(3)</sup> (6)	2016 <sup>(3)</sup> (7)	2015	2014 <sup>(8)</sup>
<b>Consolidated Balance Sheet Data:</b> <sup>(1)</sup>					
Cash and cash equivalents	\$2,202	\$2,120	\$1,816	\$1,832	\$4,105
Short-term investments	2,713	3,743	5,333	4,299	3,730
Long-term investments	3,778	6,331	3,969	3,391	5,736
Working capital - continuing operations	2,672	4,185	5,010	5,641	4,463
Working capital - discontinued operations	—	—	—	—	4,537
Working capital total <sup>(2)</sup>	2,672	4,185	5,010	5,641	9,000
Total assets - continuing operations	22,819	25,986	23,851	17,785	21,716
Total assets - discontinued operations	—	—	—	—	23,416
Total assets	22,819	25,986	23,851	17,785	45,132
Short-term debt	1,546	781	1,451	—	850
Long-term debt	7,685	9,234	7,509	6,779	6,777
Total stockholders' equity <sup>(4)</sup>	6,281	8,049	10,526	6,576	19,906

(1) Includes the impact of acquisitions and dispositions. For a summary of recent significant acquisitions and dispositions, please see "Note 3 - Business Combinations" to the consolidated financial statements included in this report.

(2) Working capital is calculated as the difference between total current assets and total current liabilities.

(3) Reflects the impact of the adoption of the new revenue recognition accounting standard in 2018. Periods prior to 2016 have not been revised.

(4) Includes the impact of the Distribution of PayPal on July 17, 2015.

(5) The consolidated balance sheet data as of December 31, 2018 includes the impact of a \$463 million reduction to the provisional current and deferred tax liabilities recorded in the fourth quarter of 2017 and a \$120 million reduction in 2018 to the deferred tax asset recognized in 2017 as a result of a tax rate change. The consolidated statement of income data for the year ended December 31, 2018 includes a \$463 million income tax benefit and \$120 million tax expense associated with such current and deferred tax liabilities and assets, respectively.

(6) The consolidated balance sheet data as of December 31, 2017 includes the impact of a \$695 million deferred tax asset recognized in 2017 as a result of our voluntary domiciling our Classifieds intangible assets into a new jurisdiction. The consolidated statement of income data for the year ended December 31, 2017 includes a \$695 million income tax benefit associated with such deferred tax asset, \$376 million caused by the foreign exchange remeasurement of our deferred tax assets and a \$3.1 billion provisional tax expense associated with the enactment of the Tax Cuts and Jobs Act.

(7) The consolidated balance sheet data for the year ended December 31, 2016 includes the impact of a \$4.6 billion deferred tax asset recognized in 2016 as a result of our election to terminate an existing tax ruling and finalize a new agreement with the foreign tax authority. The consolidated statement of income data for the year ended December 31, 2016 includes a \$4.6 billion income tax benefit associated with such deferred tax asset.

(8) The consolidated statement of income data for the year ended December 31, 2014 includes an income tax provision of approximately \$3.0 billion to recognize deferred tax liabilities on \$9.0 billion of undistributed foreign earnings of certain of our foreign subsidiaries for 2013.

## ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

*This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Item 1A: Risk Factors" of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission. 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 consolidated financial statements and the related notes included in this report.*

### OVERVIEW

#### **Business**

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

#### **Seasonality**

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

	Quarter Ended			
	March 31	June 30	September 30	December 31
<b>2016</b>				
Net revenues	\$2,216	\$2,309	\$2,299	\$2,474
Percent change from prior quarter	(5 )%	4 %	0 %	8 %
<b>2017</b>				
Net revenues	\$2,303	\$2,419	\$2,498	\$2,707
Percent change from prior quarter	(7 )%	5 %	3 %	8 %
<b>2018</b>				
Net revenues	\$2,580	\$2,640	\$2,649	\$2,877

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Percent change from prior quarter (5 )% 2 % 0 % 9 %

36

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### ***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 impact our financial results. Because of this and the fact that we generate a majority of our net revenues internationally, including during the years ended December 31, 2018, 2017 and 2016, we are subject to the risks related to doing business in foreign countries as discussed under “Item 1A: Risk Factors.”

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

The effect of foreign currency exchange rate movements during 2018 was primarily attributable to the weakening of the U.S. dollar against the euro, British pound and Korean won.

### ***Fiscal Year Highlights***

Net revenues increased 8% to \$10.7 billion in 2018 compared to 2017, primarily driven by Marketplace net transaction revenues and Classifieds marketing services and other revenues. FX-Neutral net revenue (as defined below) increased 6% in 2018 compared to 2017. Operating margin decreased to 20.7% in 2018 compared to 22.8% in 2017.

In the third quarter of 2018, we sold our investment in Flipkart and received gross proceeds of \$1.0 billion. We generated cash flow from continuing operating activities of \$2.7 billion in 2018 compared to \$3.1 billion in 2017, ending the year with cash, cash equivalents and non-equity investments of \$8.6 billion.

In the fourth quarter of 2018, we completed our analysis of the impacts of U.S. tax reform in the fourth quarter and recognized a \$463 million reduction to the provisional tax amounts recorded in the fourth quarter of 2017, which is included as a component of income tax expense from continuing operations.

Diluted earnings per share from continuing operations was \$2.55 in 2018 compared to diluted loss per share of \$0.95 in 2017. In January 2019, our Board of Directors initiated a quarterly cash dividend of \$0.14 per share of common stock to be paid on or about March 20, 2019 to shareholders of record as of March 1, 2019.





**RESULTS OF OPERATIONS****Net Revenues**

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

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

	Year Ended December 31,					
	2018	% Change	2017	% Change	2016	
<b>Net Revenues by Type:</b>						
<b>Net transaction revenues:</b>						
Marketplace <sup>(1)</sup>	\$7,416	9 %	\$6,809	6 %	\$6,425	
StubHub	1,068	6 %	1,011	8 %	938	
Total net transaction revenues	8,484	8 %	7,820	6 %	7,363	
<b>Marketing services and other revenues:</b>						
Marketplace	1,225	3 %	1,192	5 %	1,137	
Classifieds	1,022	14 %	897	13 %	791	
StubHub, Corporate and other	15	(17 )%	18	**	7	
Total marketing services and other revenues	2,262	7 %	2,107	9 %	1,935	
Total net revenues	\$10,746	8 %	\$9,927	7 %	\$9,298	
<b>Net Revenues by Geography:</b>						
U.S.	\$4,373	4 %	\$4,187	6 %	\$3,967	
International	6,373	11 %	5,740	8 %	5,331	
Total net revenues	\$10,746	8 %	\$9,927	7 %	\$9,298	

\*\* Not meaningful

Marketplace net transaction revenues were net of \$8 million and \$28 million of hedging activity in 2018 and 2017, respectively. There were no (1) hedging activities within net revenues during 2016. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk for further discussion of our hedging activity.

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

	Year Ended December 31,					
	2018	% Change	2017	% Change	2016	
<b>Supplemental Operating Data:</b>						
GMV <sup>(1)</sup> :						
Marketplace	\$89,829	7	% \$83,883	6	% \$79,178	
StubHub	4,751	5	% 4,520	5	% 4,310	
Total GMV	\$94,580	7	% \$88,403	6	% \$83,488	
Transaction take rate:						
Marketplace <sup>(2)</sup>	8.25	% 0.13	% 8.12	% 0.01	% 8.11	%
StubHub <sup>(3)</sup>	22.48	% 0.11	% 22.37	% 0.60	% 21.77	%
Total transaction take rate <sup>(4)</sup>	8.97	% 0.12	% 8.85	% 0.03	% 8.82	%

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

(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 GMV.

## Net Transaction Revenues

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

	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,			
	2018	2017	% Change	2017	2016	% Change	2017	2016	% Change	
			As Reported	FX-Neutral			As Reported	FX-Neutral		
Total net transaction revenues	8,484	7,820	8	% 7	%	7,820	7,363	6	% 7	%
Percentage of net revenues	79	% 79	%			79	% 79	%		
Total GMV	94,580	88,403	7	% 5	%	88,403	83,488	6	% 6	%
Total transaction take rate	8.97	% 8.85	% 0.12	%		8.85	% 8.82	% 0.03	%	

The changes in net transaction revenues and total transaction take rate were primarily driven by our Marketplace platform as further discussed below.

Net transaction revenues earned internationally totaled \$4.7 billion, \$4.2 billion and \$4.0 billion in 2018, 2017 and 2016, respectively, representing 55%, 54% and 55% of total net transaction revenues in the respective periods. The increase in net transaction revenues earned internationally as a percentage of total net transaction revenues in 2018 compared to 2017 was primarily driven by a favorable impact from foreign currency movements relative to the U.S. dollar. The decrease in net transaction revenues earned internationally as a percentage of total net transaction revenue in 2017 compared to 2016 was primarily driven by an unfavorable impact from foreign currency movements relative to the U.S. dollar.

*Marketplace Net Transaction Revenues*

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

	Year Ended December 31,		% Change			Year Ended December 31,		% Change				
	2018	2017	As Reported	FX-Neutral		2017	2016	As Reported	FX-Neutral			
Marketplace net transaction revenues	7,416	6,809	9	%	7	%	6,809	6,425	6	%	7	%
Marketplace GMV	89,829	83,883	7	%	5	%	83,883	79,178	6	%	6	%
Marketplace take rate	8.25	%	8.12	%	0.13	%	8.12	%	8.11	%	0.01	%

The increase in Marketplace net transaction revenues in 2018 compared to 2017 was primarily due to an increase in Marketplace GMV and a favorable impact from foreign currency movements relative to the U.S. dollar. Marketplace transaction take rate was higher in 2018 compared to 2017, primarily due to growth in promoted listing fees, which along with final value fees are calculated as a percentage of an items sale price, and a decrease in seller incentives, partially offset by a decrease in revenues from final value fees attributable to pricing and category mix.

The increase in Marketplace net transaction revenues in 2017 compared to 2016 was primarily due to Marketplace GMV growth, partially offset by hedging activity and an unfavorable impact from foreign currency movements relative to the U.S. dollar. Marketplace transaction take rate in 2017 compared to 2016 was relatively flat.

*StubHub Net Transaction Revenues*

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

	Year Ended December 31,		% Change			Year Ended December 31,		% Change				
	2018	2017	As Reported	FX-Neutral		2017	2016	As Reported	FX-Neutral			
StubHub net transaction revenues	1,068	1,011	6	%	6	%	1,011	938	8	%	8	%
StubHub GMV	4,751	4,520	5	%	5	%	4,520	4,310	5	%	5	%
StubHub take rate	22.48%	22.37%	0.11%				22.37%	21.77%	0.60%			

The increase in StubHub net transaction revenues in 2018 compared to 2017 was primarily due to an increase in StubHub GMV. The increase in StubHub GMV in 2018 compared to 2017 was primarily driven by concerts and sporting events. The increase in StubHub transaction take rate in 2018 compared to 2017 was primarily due to pricing changes on the platform.

The increase in StubHub net transaction revenues in 2017 compared to 2016 was primarily due to an increase in StubHub take rate and StubHub GMV. The increase in StubHub transaction take rate in 2017 compared to 2016 was primarily due to pricing changes and a decrease in our buyer incentives, which are accounted for as a reduction of revenue. The increase in StubHub GMV in 2017 compared to 2016 was primarily driven by theater and concerts, partially offset by sporting events.



### Marketing Services and Other Revenues

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

	Year Ended December 31,		% Change		Year Ended December 31,		% Change	
	2018	2017	As Reported	FX-Neutral	2017	2016	As Reported	FX-Neutral
<b>MS&amp;O revenues:</b>								
Marketplace	\$1,225	\$1,192	3 %	1 %	\$1,192	\$1,137	5 %	5 %
Classifieds	1,022	897	14 %	10 %	897	791	13 %	12 %
StubHub, Corporate and other	15	18	(17) %	(18) %	18	7	**	**
Total MS&O revenues	\$2,262	\$2,107	7 %	5 %	\$2,107	\$1,935	9 %	8 %
Percentage of net revenues	21 %	21 %			21 %	21 %		

#### Marketplace MS&O Revenues

The increase in Marketplace MS&O revenues in 2018 compared to 2017 was primarily driven by an increase in revenues attributable to our first-party inventory program in Korea and revenue sharing arrangements, particularly shipping, partially offset by a decrease in advertising revenues that was driven by our ongoing shift to promoted listing fees, which are recognized in net transaction revenues. The increase in Marketplace MS&O revenues in 2017 compared to 2016 was primarily driven by an increase in revenues attributable to our first-party inventory program in Korea and, to a lesser extent, our Brands4friends online shopping community.

#### Classifieds MS&O Revenues

The increases in Classifieds MS&O revenues in 2018 compared to 2017 and in 2017 compared to 2016 was primarily driven by increased revenue from our Classifieds horizontal and vertical motors platforms primarily in Germany.

#### Cost of Net Revenues

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

	Year Ended December 31,		2017	% Change	2016
	2018	% Change			
Cost of net revenues	\$2,382	7 %	\$2,221	11 %	\$2,004
As a percentage of net revenues	22.2 %		22.4 %		21.6 %

The increase in cost of net revenues in 2018 compared to 2017 was primarily due to an increase in site operation and payment processing costs as we increased our investments in our business, and an increase in costs of goods sold driven by our first-party inventory program in Korea.

The increase in cost of net revenues in 2017 compared to 2016 was primarily due to an increase in costs of goods sold driven by our first-party inventory program in Korea and our Brands4friends online shopping community and increased investments in site operations.

Cost of net revenues was unfavorably impacted by \$34 million attributable to foreign currency movements relative to the U.S. dollar in 2018. Cost of net revenues, net of \$3 million from hedging activities, was unfavorably impacted by \$19 million attributable to foreign currency movements relative to the U.S. dollar in 2017 compared to 2016. There was no hedging activity within cost of net revenues in 2018.

## Operating Expenses

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

	Year Ended December 31,					
	2018	% Change	2017	% Change	2016	
Sales and marketing	\$3,391	18 %	\$2,878	7 %	\$2,691	
<i>Percentage of net revenues</i>	32	%	29	%	29	%
Product development	1,285	5 %	1,224	10 %	1,114	
<i>Percentage of net revenues</i>	12	%	12	%	12	%
General and administrative	1,131	10 %	1,030	15 %	899	
<i>Percentage of net revenues</i>	11	%	10	%	10	%
Provision for transaction losses	286	5 %	272	18 %	231	
<i>Percentage of net revenues</i>	3	%	3	%	2	%
Amortization of acquired intangible assets	49	27 %	38	12 %	34	
Total operating expenses	\$6,142	13 %	\$5,442	10 %	\$4,969	

Operating expenses were unfavorably impacted by \$68 million attributable to foreign currency movements relative to the U.S. dollar in 2018 compared to 2017. Operating expenses, net of \$8 million from hedging activities, were unfavorably impacted by \$14 million attributable to foreign currency movements relative to the U.S. dollar in 2017 compared to 2016. There was no hedging activity within operating expenses in 2018.

### Sales and Marketing

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

The increase in sales and marketing expense in 2018 compared to 2017 was primarily due to an increase in user coupons and rewards and traffic acquisition costs. The increase in sales and marketing expense in 2017 compared to 2016 was primarily due to an increase in brand spend and employee-related costs.

### Product Development

Product development expenses primarily consist of employee compensation, contractor costs, facilities costs and depreciation on equipment. Product development expenses are net of required capitalization of major platform and other product development efforts, including the development and maintenance of our technology platform. Our top technology priorities include payment intermediation capabilities and improved seller tools and buyer experiences built on a foundation of structured data and leveraging artificial intelligence and computer vision.

Capitalized internal use and platform development costs were \$147 million and \$140 million in 2018 and 2017, respectively, and are primarily reflected as a cost of net revenues when amortized in future periods.

The increase in product development expenses in 2018 compared to 2017 was primarily due to an increase in employee-related costs, partially offset by a decrease in depreciation on equipment. The increase in



product development expenses in 2017 compared to 2016 was primarily due to an increase in employee-related costs.

*General and Administrative*

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

The increase in general and administrative expenses in 2018 compared to 2017 was primarily due to restructuring costs related to our global workforce reduction and an increase in employee-related costs. For additional details related to the restructuring, refer to “Note 17 – Restructuring” to the consolidated financial statements included in this report.

The increase in general and administrative expenses in 2017 compared to 2016 was primarily due to increased data, information security and employee-related costs, as well as costs related to the integration of prior period acquisitions and realignment of our legal structure.

#### *Provision for Transaction Losses*

Provision for transaction losses primarily consists of transaction loss expense associated with our buyer 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 protection programs and the impact of regulatory changes.

The increase in provision for transaction losses in 2018 compared to 2017 was not significant. The increase in provision for transaction losses in 2017 compared to 2016 was primarily due to higher customer protection program costs and an increase in costs related to uncollectible accounts.

#### *Interest and Other, Net*

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

	Year Ended December 31,				
	2018	% Change	2017	% Change	2016
Interest income	\$ 176	(1 )%	\$ 177	42 %	\$ 125
Interest expense	(326 )	12 %	(292 )	30 %	(225 )
Gains on investments and sale of business	663	**	115	(91 )%	1,343
Other	(17 )	**	11	(87 )%	83
Total interest and other, net	\$ 496	**	\$ 11	(99 )%	\$ 1,326

The increase in interest and other, net in 2018 compared to 2017 was primarily attributable to the \$313 million gain recognized on the sale of our investment in Flipkart and \$266 million gain recognized upon relinquishment of our existing equity method investment in Giosis and \$104 million gain recognized due to the change in fair value of the warrant.

The decrease in interest and other, net in 2017 compared to 2016 was primarily due to the \$1.3 billion pre-tax gain from the sale of our equity holdings of MercadoLibre, Inc. in 2016.



**Income Tax Provision**

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

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Income tax provision (benefit)	\$ 190	\$ 3,288	\$ (3,634)
<i>Effective tax rate</i>	<i>7.0 %</i>	<i>144.5 %</i>	<i>(99.5 )%</i>

The decrease in our effective tax rate in 2018 compared to 2017 was primarily due to the \$3.1 billion provisional tax charge related to the Tax Cuts and Jobs Act (the “Act” or “U.S. tax reform”) recorded in 2017. In 2018, as we completed our analysis of U.S. tax reform, we recorded a \$463 million reduction to the provisional tax amounts recorded in 2017. Further, the 2018 effective tax rate was favorably impacted by U.S. tax reform and the gain recognized from the relinquishment of our existing equity method investment in Giosis in the second quarter 2018 that is not subject to U.S. federal income tax on a current basis.

The increase in our effective tax rate in 2017 compared to 2016 was primarily due to a \$3.1 billion provisional tax charge for the impacts of U.S. tax reform. Additionally, the 2017 effective tax rate was impacted by the increase in our foreign tax rate as we no longer benefit from certain tax rulings and a noncash income tax charge of \$376 million due to the foreign exchange remeasurement of our deferred tax assets, partially offset by the recognition in the first quarter of 2017 of deferred tax assets of approximately \$695 million.

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

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

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. U.S. tax reform, among other things, reduces the U.S. federal income tax rate from 35% to 21% in 2018, instituted a dividends received deduction for foreign earnings with a related tax for the deemed repatriation of unremitted foreign earnings in 2017 and created a new U.S. minimum tax on earnings of foreign subsidiaries. We recognized a provisional income tax charge of \$3.1 billion in the fourth quarter of 2017, which was included as a component of the income tax provision on our consolidated statement of income. We completed our analysis of the impacts of U.S. tax reform in the fourth quarter of 2018 and recognized a \$463 million reduction to the provisional tax amounts recorded in the fourth quarter of 2017, which is included as a component of income tax expense from continuing operations.

Included in the provisional amount was \$1.4 billion for the income tax on the deemed repatriation of unremitted foreign earnings. We completed the computation of this amount as part of the 2017 income tax return filing and reduced the provisional amount by \$18 million. Additionally, we utilized \$213 million of

foreign tax credits to reduce the net liability.

The remaining provisional amount of \$1.7 billion was for the deferred income tax effects of the Act, primarily the impact of the new U.S. minimum tax on foreign earnings, partially offset by the reversal of our existing deferred tax liability associated with repatriation of unremitted foreign earnings. We completed our analysis of the components of the deferred tax computation in the fourth quarter of 2018 and recognized a tax benefit of \$445 million as a reduction to the provisional amounts recorded in the fourth quarter of 2017 for the deferred income tax effects of the Act. This amount includes a \$389 million tax benefit as a result of clarification by Swiss tax authorities regarding the applicability of withholding tax to repatriated earnings in October 2018.

As a result of U.S. tax reform, our earnings in foreign jurisdictions are taxed at substantially the same rate as the U.S. federal statutory tax rate of 21%. In prior years, our provision for income taxes differed from the provision computed by applying the U.S. federal statutory rate of 35% primarily due to lower tax rates associated with certain earnings from our operations in jurisdictions outside the U.S. The impact on our provision for income taxes of foreign income being taxed at different rates than the U.S. federal statutory rate was a benefit of approximately \$217 million in 2017 and \$451 million in 2016. In those years, the foreign jurisdictions with lower tax rates that had the most significant impact on our provision for income taxes in the periods presented include Switzerland. See “Note 14 - Income Taxes” to the consolidated financial statements included in this report for more information on our tax rate reconciliation.

Our relative pretax earnings and revenues attributable to the U.S. as compared to the rest of the world may differ over time. In general, these differences are attributable to higher amortization of U.S. based intangible assets, larger stock-based compensation expense recorded in the U.S. for U.S. based employees, overhead related to our corporate operations which are primarily U.S. based and higher average margins earned by non-U.S. businesses. Our U.S. share of pretax income and net revenues was 11.0% and 40.7%, respectively for 2018 and 18.4% and 42.8% for 2017. The difference in relative pretax income and net revenues attributable to the U.S. as compared to the rest of the world for 2018 and 2017 was primarily due to the general drivers discussed above.

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

We are regularly under examination by tax authorities both domestically and internationally. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations, although we cannot assure you that this will be the case given the inherent uncertainties in these examinations. Due to the ongoing tax examinations, it is generally impractical to determine the amount and timing of these adjustments. However, we expect several tax examinations to close within the next twelve months. See “Note 14 - Income Taxes” to the consolidated financial statements included in this report for more information on estimated settlements within the next twelve months.

### ***Non-GAAP Measures of Financial Performance***

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

These non-GAAP measures are not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. These measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

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

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

	Year Ended December 31, 2018			Year Ended December 31, 2017				
	As Reported	Exchange Rate Effect <sup>(1)(3)</sup>	FX-Neutral <sup>(2)</sup>	As Reported	As Reported %	FX-Neutral % Change		
<b>GMV:</b>								
Marketplace	\$89,829	\$ 1,659	\$ 88,170	\$ 83,883	7 %	5 %		
StubHub	4,751	5	4,746	4,520	5 %	5 %		
Total GMV	\$94,580	\$ 1,664	\$ 92,916	\$ 88,403	7 %	5 %		

**Net transaction revenues:**

Marketplace	\$7,416	\$ 118	\$ 7,298	\$ 6,809	9 %	7 %		
StubHub	1,068	1	1,067	1,011	6 %	6 %		
Total net transaction revenues	8,484	119	8,365	7,820	8 %	7 %		

**Marketing services and other revenues:**

Marketplace	1,225	22	1,203	1,192	3 %	1 %		
Classifieds	1,022	33	989	897	14 %	10 %		
StubHub, Corporate and other	15	—	15	18	(17 )%	(18 )%		
Total marketing services and other revenues	2,262	55	2,207	2,107	7 %	5 %		
Total net revenues	\$10,746	\$ 174	\$ 10,572	\$ 9,927	8 %	6 %		

	Year Ended December 31, 2017			Year Ended December 31, 2016				
	As Reported	Exchange Rate Effect <sup>(1)(3)</sup>	FX-Neutral <sup>(2)</sup>	As Reported	As Reported %	FX-Neutral % Change		
<b>GMV:</b>								
Marketplace	\$83,883	\$ (224 )	\$ 84,107	\$ 79,178	6 %	6 %		
StubHub	4,520	(5 )	4,525	4,310	5 %	5 %		
Total GMV	\$88,403	\$ (229 )	\$ 88,632	\$ 83,488	6 %	6 %		

**Net transaction revenues:**

Marketplace	\$6,809	\$ (52 )	\$ 6,861	\$ 6,425	6 %	7 %		
StubHub	1,011	—	1,011	938	8 %	8 %		
Total net transaction revenues	7,820	(52 )	7,872	7,363	6 %	7 %		

**Marketing services and other revenues:**

Marketplace	1,192	—	1,192	1,137	5 %	5 %		
Classifieds	897	13	884	791	13 %	12 %		
StubHub, Corporate and other	18	—	18	7	**	**		
Total marketing services and other revenues	2,107	13	2,094	1,935	9 %	8 %		
Total net revenues	\$9,927	\$ (39 )	\$ 9,966	\$ 9,298	7 %	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, excluding hedging activity.

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

(3) Marketplace Exchange Rate Effect was net of \$8 million and \$28 million of hedging activity in 2018 and 2017, respectively.





**Liquidity and Capital Resources****Cash Flows**

	<b>Year Ended December</b>		
	<b>31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>		
Net cash provided by (used in):			
Continuing operating activities	\$2,661	\$3,146	\$2,827
Investing activities	2,894	(1,295 )	(2,017 )
Financing activities	(5,398 )	(1,784 )	(744 )
Effect of exchange rates on cash, cash equivalents and restricted cash	(75 )	238	(90 )
Net increase (decrease) in cash, cash equivalents and restricted cash - discontinued operations	(3 )	—	(1 )
Net increase (decrease) in cash, cash equivalents and restricted cash	\$79	\$305	\$(25 )

**Continuing Operating Activities**

Cash provided by continuing operating activities of \$2.7 billion in 2018 was primarily attributable to net income of \$2.5 billion with adjustments of \$696 million in depreciation and amortization, \$538 million in stock-based compensation and \$286 million in provision for transaction losses, partially offset by a decrease of \$577 million in changes in assets and liabilities, net of acquisition effects, and adjustments of \$572 million for gain on investments, \$153 million for deferred income taxes and \$104 million for changes in fair value of the warrant.

The net cash provided by continuing operating activities of \$3.1 billion in 2017 was primarily due to \$1.1 billion of changes in assets and liabilities, net of acquisition effects, and a net loss of \$1.0 billion offset by adjustments of \$1.7 billion in deferred income taxes, \$676 million in depreciation and amortization and \$483 million in stock-based compensation.

The net cash provided by continuing operating activities of \$2.8 billion in 2016 was primarily due to net income of \$7.3 billion with adjustments for \$682 million in depreciation and amortization, \$416 million in stock-based compensation and \$20 million in changes in assets and liabilities, net of acquisition effects, partially offset by a decrease of \$4.6 billion related to deferred income taxes and \$1.2 billion related to gain on sale of investments.

Cash paid for income taxes in 2018 was \$597 million, which included tax payments related to our liability for deemed repatriation of foreign earnings under U.S. tax reform of \$168 million, including a prepayment of \$72 million. Cash paid for income taxes in 2017 and 2016 was \$308 million and \$492 million, respectively.

**Investing Activities**

Cash provided by investing activities of \$2.9 billion in 2018 was primarily attributable to proceeds of \$30.9 billion from the maturities and sales of investments and \$1.0 billion from the sale of equity investment in Flipkart, partially offset by cash paid for purchases of investments of \$28.1 billion, property and equipment of \$651 million and acquisitions of \$302 million.

The net cash used in investing activities of \$1.3 billion in 2017 was primarily due to cash paid for property and equipment of \$666 million and cash paid for our equity investment in Flipkart of \$514 million.

The net cash used in investing activities of \$2.0 billion in 2016 was primarily due to cash paid for investments of \$11.2 billion, property and equipment of \$626 million and net cash paid for acquisition of businesses of \$212 million, partially offset by proceeds of \$10.1 billion from the maturities and sales of investments.

The largely offsetting effects of purchases of investments and maturities and sale of investments results from the management of our investments. As our immediate cash needs change, purchase and sale activity will fluctuate.

## ***Financing Activities***

Cash used in financing activities of \$5.4 billion in 2018 was primarily used to repurchase \$4.5 billion of common stock and repay \$750 million of our outstanding senior notes.

The net cash used in financing activities of \$1.8 billion in 2017 was primarily due to \$2.7 billion of cash used to repurchase common stock and \$1.5 billion of cash used to repay outstanding debt, partially offset by \$2.5 billion of cash proceeds from debt issuances.

The net cash used in financing activities of \$744 million in 2016 was primarily due to \$2.9 billion of cash paid to repurchase common stock, partially offset by \$2.2 billion of proceeds from debt issuances.

The negative effect of exchange rate movements on cash and cash equivalents was due to the strengthening of the U.S. dollar against other currencies, primarily the euro, Korean won and British pound, during 2018. The positive effect of exchange rate movements on cash and cash equivalents was due to the weakening of the U.S. dollar against other currencies, primarily the euro and Korean won, during 2017. The negative impact of currency exchange rates on our cash and cash equivalents during 2016 was due to the strengthening of the U.S. dollar against other currencies, primarily the euro.

## ***Stock Repurchases***

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

During 2018, we repurchased approximately \$4.5 billion of our common stock under our stock repurchase programs. As of December 31, 2018, a total of approximately \$3.2 billion remained available for future repurchases of our common stock under our stock repurchase programs. In January 2019, our Board authorized an additional \$4.0 billion stock repurchase program, with no expiration from the date of authorization.

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

## ***Dividends***

In January 2019, our Board of Directors initiated a quarterly cash dividend of \$0.14 per share of common stock to be paid on or about March 20, 2019 to shareholders of record as of March 1, 2019.

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

As of December 31, 2018, we had an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue various types of debt securities, as well as common stock, preferred stock, warrants, depositary shares representing fractional interest in shares of preferred stock, purchase contracts and units from time to time in one or more offerings. Each issuance under the shelf registration statement will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. The registration statement does not limit the amount of securities that may be issued thereunder. Our ability to issue securities is subject to market conditions and other factors including, in the case of our debt securities, our credit ratings and compliance with the covenants in our credit agreement.

### *Senior Notes*

As of December 31, 2018, we had floating- and fixed-rate senior notes outstanding for an aggregate principal amount of \$9.3 billion. The net proceeds from the issuances of these senior notes were used for general corporate purposes, including, among other things, capital expenditures, share repurchases, repayment of indebtedness and possible acquisitions. The floating rate notes are not redeemable prior to maturity. On and after March 1, 2021, we may redeem some or all of the 6.000% fixed rate notes due 2056 at any time and from time to time prior to their maturity, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest. We may redeem some or all of the other fixed rate notes of each series at any time and from time to time prior to their maturity, generally at a make-whole redemption price plus accrued and unpaid interest. If a change of control triggering event occurs with respect to the 2.150% fixed rate notes due 2020, the 3.800% fixed rate notes due 2022, the floating rate notes due 2023, the 2.750% fixed rate notes due 2023, the 3.600% fixed rate notes due 2027 or the 6.000% fixed rate notes due 2056, we must, subject to certain exceptions, offer to repurchase all of the notes of the applicable series at a price equal to 101% of the principal amount plus accrued and unpaid interest. For additional details related to our senior notes, please see “Note 10 – Debt” to the consolidated financial statements included in this report.

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

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

### *Commercial Paper*

We have a commercial paper program pursuant to which we may issue commercial paper notes in an aggregate principal amount at maturity of up to \$1.5 billion outstanding at any time with maturities of up to 397 days from the date of issue. As of December 31, 2018, there were no commercial paper notes outstanding.

### *Credit Agreement*

In November 2015, we entered into a credit agreement that provides for an unsecured \$2 billion five-year revolving credit facility. We may also, subject to the agreement of the applicable lenders, increase the commitments under the revolving credit facility by up to an aggregate amount of \$1 billion. Funds borrowed under the credit agreement may be used for working capital, capital expenditures, dividends, acquisitions and other general corporate purposes.

As of December 31, 2018, no borrowings were outstanding under our \$2 billion credit agreement. However, as described above, we have an up to \$1.5 billion commercial paper program and therefore maintain \$1.5 billion of available borrowing capacity under our credit agreement in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they become due. As a result, \$500 million of borrowing capacity was available as of December 31, 2018 for other

purposes permitted by the credit agreement.

Loans under the credit agreement bear interest at either (i) LIBOR plus a margin (based on our public debt credit ratings) ranging from 0.875 percent to 1.5 percent or (ii) a formula based on the agent bank's prime rate, the federal funds effective rate plus 0.5 percent or LIBOR plus 1.0 percent, plus a margin (based on our public debt credit ratings) ranging from zero percent to 0.5 percent. The credit agreement will terminate and all amounts owing thereunder will be due and payable on November 9, 2020, unless (a) the commitments are terminated earlier, either at our request or, if an event of default occurs, by the lenders (or automatically in the case of certain bankruptcy-related events of default), or (b) the maturity date is extended upon our request, subject to the agreement of the lenders. The credit agreement includes customary representations, warranties, affirmative and negative covenants, including financial covenants, events of default and indemnification provisions in favor of the banks. The negative covenants include restrictions regarding the incurrence of liens and subsidiary indebtedness, in each case, subject to certain exceptions. The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest

coverage ratio and a maximum consolidated leverage ratio. The events of default include the occurrence of a change of control (as defined in the credit agreement) with respect to us.

We were in compliance with all covenants in our outstanding debt instruments for the period ended December 31, 2018.

### *Credit Ratings*

As of December 31, 2018, we were rated investment grade by Standard and Poor's Financial Services, LLC (long-term rated BBB+, short-term rated A-2, with a stable outlook), Moody's Investor Service (long-term rated Baa1, short-term rated P-2, with a stable outlook), and Fitch Ratings, Inc. (long-term rated BBB, short-term rated F-2, with a stable outlook). We disclose these ratings to enhance the understanding of our sources of liquidity and the effects of our ratings on our costs of funds. Our borrowing costs depend, in part, on our credit ratings and any further actions taken by these credit rating agencies to lower our credit ratings, as described above, will likely increase our borrowing costs.

### *Commitments and Contingencies*

We have certain fixed contractual obligations and commitments that include future estimated payments for general operating purposes. Changes in our business needs, contractual cancellation provisions, fluctuating interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of these payments. The following table summarizes our fixed contractual obligations and commitments (in millions):

Payments Due During the Year Ending December 31,	Debt	Leases	Purchase Obligations	Total
2019	\$1,841	\$136	\$209	\$2,186
2020	1,259	104	147	1,510
2021	983	91	128	1,202
2022	1,935	76	116	2,127
2023	1,284	51	38	1,373
Thereafter	5,220	119	—	5,339
	\$12,522	\$577	\$638	\$13,737

The significant assumptions used in our determination of amounts presented in the above table are as follows:

Debt amounts include the principal and interest amounts of the respective debt instruments. For additional details related to our debt, please see "Note 10 – Debt" to the consolidated financial statements included in this report. This table does not reflect any amounts payable under our \$2 billion revolving credit facility or \$1.5 billion commercial paper program, for which no borrowings were outstanding as of December 31, 2018.

Lease amounts include minimum rental payments under our non-cancelable operating leases for office space, data centers, as well as fulfillment centers and other corporate assets that we utilize under lease arrangements. The amounts presented are consistent with contractual terms and are not expected to differ significantly from actual results under our existing leases, unless a substantial change in our headcount needs requires us to expand our occupied space or exit an office facility early.

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Purchase obligation amounts include minimum purchase commitments for advertising, capital expenditures (computer equipment, software applications, engineering development services, construction contracts) and other goods and services entered into in the ordinary course of business.

As we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits, net, the table does not include \$466 million of such non-current liabilities included in other liabilities on our consolidated balance sheet as of December 31, 2018. The gross amount of unrecognized tax benefits expected to be reduced within the next twelve months is approximately \$196 million. See "Note 14 - Income Taxes" to the consolidated financial statements included in this report for more information on unrecognized tax benefits.

### *Liquidity and Capital Resource Requirements*

As of December 31, 2018 and December 31, 2017, we had assets classified as cash and cash equivalents, as well as short-term and long-term non-equity investments, in an aggregate amount of \$8.6 billion and \$11.3 billion, respectively. As of December 31, 2018, this amount included assets held in certain of our foreign operations totaling approximately \$7.8 billion. As a result of U.S. tax reform, the \$7.8 billion held by our non-U.S. subsidiaries was subject to current tax in the U.S. in 2017. As of December 31, 2018, we have repatriated a portion of these funds to the U.S. As we repatriate these funds to the U.S., we will be required to pay income taxes in certain U.S. states and applicable foreign withholding taxes during the period when such repatriation occurs. We have accrued deferred taxes for the tax effect of repatriating the funds to the U.S.

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

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

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

### *Off-Balance Sheet Arrangements*

As of December 31, 2018, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

We have a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals from the financial institution based upon our aggregate operating cash balances held within the same financial institution ("Aggregate Cash Deposits"). This arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income under the arrangement. As of December 31, 2018, we had a total of \$2.7 billion in aggregate cash deposits, partially offset by \$2.4 billion in cash withdrawals, 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. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us and PayPal, which may be significant. In addition, the indemnity rights we have against PayPal under the agreements may not be sufficient to protect us and our indemnity obligations to PayPal may be significant.

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

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

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

#### *General*

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and related notes and other disclosures included in this report.

#### *Revenue Recognition*

We may enter into certain revenue contracts that include promises to transfer multiple goods or services including discounts on future services. We also may enter into arrangements to purchase services from certain customers. As a result, significant interpretation and judgment is sometimes required to determine the appropriate accounting for these transactions including: (1) whether services are considered distinct performance obligations that should be accounted for separately or combined; (2) developing an estimate of the stand-alone selling price of each distinct performance obligation; (3) whether revenue should be reported gross (as eBay is acting as a principal), or net (as eBay is acting as an agent); (4) evaluating whether a promotion or incentive is a payment to a customer; and (5) whether the arrangement would be characterized as revenue or reimbursement of costs incurred. Changes in judgments with respect to these assumptions and estimates could impact the timing or amount of revenue recognition.

#### *Income Taxes*

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective government taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and adjust the balances as new information becomes available. Our income tax rate is significantly affected by the tax rates that apply to our foreign earnings. In addition to local country tax laws and regulations, our income tax rate depends on the extent that our earnings are indefinitely reinvested outside the U.S. Indefinite reinvestment is determined by management's judgment about and intentions concerning our future operations. As a result of U.S. tax reform and the current U.S. taxation of deemed repatriated earnings, management has no specific plans to indefinitely reinvest the undistributed earnings of our foreign subsidiaries at the balance sheet date.

Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates that are based on a number of factors, including our historical experience and short-range and long-range business forecasts. As of December 31, 2018, we had a valuation allowance on certain net operating loss and tax credit carryforwards based on our assessment that it is more likely than not that the deferred tax asset will not be realized.

We recognize and measure uncertain tax positions in accordance with generally accepted accounting principles in the U.S., or GAAP, pursuant to which we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. GAAP further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter in which such change occurs. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited by the relevant tax authorities and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most likely outcome. We adjust these reserves, as well as the related interest, where appropriate in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

The following table illustrates our effective tax rates for 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(In millions, except percentages)		
Income tax provision (benefit)	\$ 190	\$ 3,288	\$ (3,634)
<i>Effective tax rate</i>	7.0 %	144.5 %	(99.5 %) %

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets or liabilities, or by changes or interpretations in tax laws, regulations or accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service, as well as various state and foreign tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Based on our results for the year ended December 31, 2018, a one-percentage point change in our provision for income taxes as a percentage of income before taxes would have resulted in an increase or decrease in the provision of approximately \$27 million, resulting in an approximate \$0.03 change in diluted earnings per share.

We accounted for the tax effects of The Tax Cuts and Jobs Act, enacted on December 22, 2017, on a provisional basis in our 2017 consolidated financial statements. We completed our accounting in the fourth quarter of 2018, within the one year measurement period from the enactment date.

*Goodwill and Intangible Assets*

The purchase price of an acquired company is allocated between intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. The determination of the value of the intangible assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital.

As of December 31, 2018, our goodwill totaled \$5.2 billion and our identifiable intangible assets, net totaled \$92 million. We assess the impairment of goodwill of our reporting units annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using market and discounted cash flow approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. The market approach uses comparable company information to determine revenue and earnings multiples to value our reporting units. Failure to achieve these expected results or market multiples may cause a future impairment of goodwill at the reporting unit. We conducted our annual impairment test of goodwill as of August 31, 2018 and 2017. As of December 31, 2018, we determined that no impairment of the carrying value of goodwill for any reporting units was required. See "Note 4 - Goodwill and Intangible Assets" to the consolidated financial statements included in this report.

### *Legal Contingencies*

In connection with certain pending litigation and other claims, we have estimated the range of probable loss, net of expected recoveries, and provided for such losses through charges to our consolidated statement of income. These estimates have been based on our assessment of the facts and circumstances at each balance sheet date and are subject to change based upon new information and future events.

From time to time, we are involved in disputes and regulatory inquiries that arise in the ordinary course of business. We are currently involved in legal proceedings, some of which are discussed in "Item 1A: Risk Factors," "Item 3: Legal Proceedings" and "Note 11 - Commitments and Contingencies" to the consolidated financial statements included in this report. We believe that we have meritorious defenses to the claims against us, and we intend to defend ourselves vigorously. However, even if successful, our defense against certain actions will be costly and could require significant amounts of management's time and result in the diversion of significant operational resources. If the plaintiffs were to prevail on certain claims, we might be forced to pay significant damages and licensing fees, modify our business practices or even be prohibited from conducting a significant part of our business. Any such results could materially harm our business and could result in a material adverse impact on the financial position, results of operations or cash flows.

### *Recent Accounting Pronouncements*

See "Note 1 - The Company and Summary of Significant Accounting Policies" to the consolidated financial statements included in this report, regarding the impact of certain recent accounting pronouncements on our consolidated financial statements.



## **ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

We are exposed to interest rate risk relating to our investments and outstanding debt. In addition, adverse economic conditions and events (including volatility or distress in the equity and/or debt or credit markets) may impact regional and global financial markets. 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 and any outcomes resulting from that vote, could cause us to write down our assets or investments. We seek to reduce earnings volatility that may result from adverse economic conditions and events or changes in interest rates.

As of December 31, 2018, approximately 25% of our total cash and investments was held in cash and cash equivalents. As such, changes in interest rates will impact interest income. As discussed below, the fair values of our fixed rate securities may be adversely affected due to a rise in interest rates, and we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates.

As of December 31, 2018, the balance of our corporate debt and government bond securities was \$6.3 billion, which represented approximately 73% of our total cash and investments. Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate investment securities may be adversely impacted due to a rise in interest rates. In general, fixed-rate securities with longer maturities are subject to greater interest rate risk than those with shorter maturities. While floating rate securities generally are subject to less interest rate risk than fixed-rate securities, floating-rate securities may produce less income than expected if interest rates decrease and may also suffer a decline in market value if interest rates increase. Due in part to these factors, our investment income may fall short of expectations or we may suffer losses in principal if we sell securities that have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would have resulted in a decrease in the fair value of our investments of \$44 million and \$93 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, we had an aggregate principal amount of \$9.3 billion of outstanding senior notes, of which 91% bore interest at fixed rates. We entered into \$2.4 billion of interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with \$1.15 billion of our 2.200% senior notes due July 2019, \$750 million of our 2.875% senior notes due July 2021, and \$500 million of our 3.450% senior notes due July 2024 so that the interest payable on those notes effectively became variable based on LIBOR plus a spread. Further changes in interest rates will impact interest expense on any borrowings under our revolving credit facility, which bear interest at floating rates, and the interest rate on any commercial paper borrowings we make and any debt securities we may issue in the future and, accordingly, will impact interest expense. For additional details related to our debt, see "Note 10 – Debt" to the consolidated financial statements included in this report.

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

#### ***Investments***

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

bonds and corporate debt securities.

As of December 31, 2018, our equity investments totaled \$143 million, which represented approximately 2% of our total cash and investments, and were primarily related to equity investments without readily determinable fair values. We review our investments for impairment when events and circumstances indicate a decline in fair value of such assets below carrying value is other-than-temporary. Our analysis includes a review of recent operating results and trends, recent sales/acquisitions of the securities in which we have invested and other publicly available data.

#### *Warrant*

We entered into a warrant agreement with a service provider, which subject to meeting certain conditions, entitles us to acquire a fixed number of shares up to 5% of the service providers fully diluted issued and outstanding share capital. The warrant is accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging. Changes in the service provider's common stock price and equity volatility may have a significant impact on the value

of the warrant. As of December 31, 2018, a one dollar change in the service provider's common stock, holding other factors constant, would increase or decrease the fair value of the warrant by approximately \$1 million. For additional details related to the warrant, please see "Note 7 - Derivative Instruments" to our consolidated financial statements included in this report.

### **Foreign Currency Risk**

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

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

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

The following table illustrates the fair values of outstanding foreign exchange contracts designated as cash flow hedges and net investment hedges, and the before-tax effect on fair values of a hypothetical adverse change in the foreign exchange rates that existed as of December 31, 2018. The sensitivity for foreign currency contracts is based on a 20% adverse change in foreign exchange rates, against relevant functional currencies.

	Fair Value Asset/(Liability)	Fair Value Sensitivity	
	(In millions)		
Foreign exchange contracts - Cash flow hedges	\$ 76	\$ (118 )	
Foreign exchange contracts - Net investment hedges	\$ (1 )	\$ (160 )	

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

Beginning in the third quarter of 2017, due to the realignment of our legal structure, more currency flows met the GAAP criteria for cash flow hedge accounting. Accordingly, \$28 million in qualifying hedging activity was netted against marketplace net transaction revenues in the second half of 2017 as compared to \$8 million for the full year of 2018.

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 \$26 million as of December 31, 2018 taking into consideration the offsetting effect of foreign exchange forwards in place as of December 31, 2018.

#### **ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements and accompanying notes listed in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K are included elsewhere in this Annual Report on Form 10-K.

#### **ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **ITEM 9A: CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures:* Based on the evaluation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2018.

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

*Management's annual report on internal control over financial reporting:* Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

#### **ITEM 9B: OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference from our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2018.

#### ***Code of Ethics, Governance Guidelines and Committee Charters***

We have adopted a *Code of Business Conduct and Ethics* that applies to all eBay employees and directors. The *Code of Business Conduct and Ethics* is posted on our website at <https://investors.ebayinc.com/corporate-governance/governance-documents/>. We will post any amendments to or waivers from the *Code of Business Conduct and Ethics* at that location.

We have also adopted *Governance Guidelines for the Board of Directors* and a written committee charter for each of our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee. Each of these documents is available on our website at <https://investors.ebayinc.com/corporate-governance/governance-documents/>.

### **ITEM 11: EXECUTIVE COMPENSATION**

Incorporated by reference from our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2018.

### **ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated by reference from our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2018.

### **ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated by reference from our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2018.

### **ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated by reference from our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2018.

**PART IV**

**ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULE**

(a) The following documents are filed as part of this report:

**1. Consolidated Financial Statements:**

	<b>Page Number</b>
<b>Report of Independent Registered Public Accounting Firm</b>	<u>F-1</u>
<b>Consolidated Balance Sheet</b>	<u>F-2</u>
<b>Consolidated Statement of Income</b>	<u>F-3</u>
<b>Consolidated Statement of Comprehensive Income</b>	<u>F-4</u>
<b>Consolidated Statement of Stockholders' Equity</b>	<u>F-5</u>
<b>Consolidated Statement of Cash Flows</b>	<u>F-6</u>
<b>Notes to Consolidated Financial Statements</b>	<u>F-8</u>

**2. Financial Statement Schedule**

**Schedule II - Valuation and Qualifying Accounts**

F-44

All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

**3. Exhibits Required by Item 601 of Regulation S-K**

The information required by this Item is set forth in the Index to Exhibits that precedes the signature page of this Annual Report.

F-45

**ITEM 16: FORM 10-K SUMMARY**

None.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of eBay Inc.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of eBay Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2018 appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's annual report on internal control over financial reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California

January 30, 2019

We have served as the Company's auditor since 1997.



**PART II: FINANCIAL INFORMATION**  
**ITEM 8: FINANCIAL STATEMENTS**  
**eBay Inc.**  
**CONSOLIDATED BALANCE SHEET**

	December 31,	
	2018	2017
	(In millions, except par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,202	\$ 2,120
Short-term investments	2,713	3,743
Accounts receivable, net	712	696
Other current assets	1,499	1,185
Total current assets	7,126	7,744
Long-term investments	3,778	6,331
Property and equipment, net	1,597	1,597
Goodwill	5,160	4,773
Intangible assets, net	92	69
Deferred tax assets	4,792	5,199
Other assets	274	273
Total assets	\$ 22,819	\$ 25,986
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 1,546	\$ 781
Accounts payable	286	330
Accrued expenses and other current liabilities	2,335	2,134
Deferred revenue	170	137
Income taxes payable	117	177
Total current liabilities	4,454	3,559
Deferred tax liabilities	2,925	3,424
Long-term debt	7,685	9,234
Other liabilities	1,474	1,720
Total liabilities	16,538	17,937
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580 shares authorized; 915 and 1,029 shares outstanding	2	2
Additional paid-in capital	15,716	15,293
Treasury stock at cost, 763 and 632 shares	(26,394 )	(21,892 )
Retained earnings	16,459	13,929
Accumulated other comprehensive income	498	717
Total stockholders' equity	6,281	8,049
Total liabilities and stockholders' equity	\$ 22,819	\$ 25,986

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

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

	Year Ended December 31,		
	2018	2017	2016
	(In millions, except per share amounts)		
Net revenues	\$10,746	\$9,927	\$9,298
Cost of net revenues	2,382	2,221	2,004
Gross profit	8,364	7,706	7,294
Operating expenses:			
Sales and marketing	3,391	2,878	2,691
Product development	1,285	1,224	1,114
General and administrative	1,131	1,030	899
Provision for transaction losses	286	272	231
Amortization of acquired intangible assets	49	38	34
Total operating expenses	6,142	5,442	4,969
Income from operations	2,222	2,264	2,325
Interest and other, net	496	11	1,326
Income from continuing operations before income taxes	2,718	2,275	3,651
Income tax benefit (provision)	(190 )	(3,288 )	3,634
Income (loss) from continuing operations	\$2,528	\$(1,013)	\$7,285
Income (loss) from discontinued operations, net of income taxes	2	(4 )	(19 )
Net income (loss)	\$2,530	\$(1,017)	\$7,266
Income (loss) per share - basic:			
Continuing operations	\$2.58	\$(0.95 )	\$6.43
Discontinued operations	—	—	(0.02 )
Net income (loss) per share - basic	\$2.58	\$(0.95 )	\$6.41
Income (loss) per share - diluted:			
Continuing operations	\$2.55	\$(0.95 )	\$6.37
Discontinued operations	—	—	(0.02 )
Net income (loss) per share - diluted	\$2.55	\$(0.95 )	\$6.35
Weighted average shares:			
Basic	980	1,064	1,133
Diluted	991	1,064	1,144

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

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

	Year Ended December 31,		
	2018	2017	2016
	(In millions)		
Net income (loss)	\$2,530	\$(1,017)	\$7,266
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation adjustment	(286 )	978	(185 )
Unrealized gains (losses) on investments, net	(41 )	(66 )	(794 )
Tax benefit (expense) on unrealized gains (losses) on investments, net	10	23	314
Unrealized gains (losses) on hedging activities, net	125	(111 )	18
Tax benefit (expense) on unrealized gains (losses) on hedging activities, net	(27 )	17	(3 )
Other comprehensive income (loss), net of tax	(219 )	841	(650 )
Comprehensive income (loss)	\$2,311	\$(176 )	\$6,616

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

**eBay Inc.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

	Year Ended December 31,		
	2018	2017	2016
	(In millions)		
Common stock:			
Balance, beginning of year	\$2	\$2	\$2
Common stock issued	—	—	—
Common stock repurchased/forfeited	—	—	—
Balance, end of year	2	2	2
Additional paid-in-capital:			
Balance, beginning of year	15,293	14,907	14,538
Common stock and stock-based awards issued	109	120	102
Tax withholdings related to net share settlements of restricted stock awards and units	(225 )	(219 )	(121 )
Stock-based compensation	538	484	416
Stock-based awards tax impact	—	—	5
Other	1	1	(33 )
Balance, end of year	15,716	15,293	14,907
Treasury stock at cost:			
Balance, beginning of year	(21,892)	(19,205)	(16,203 )
Common stock repurchased	(4,502 )	(2,687 )	(3,002 )
Balance, end of year	(26,394)	(21,892)	(19,205 )
Retained earnings:			
Balance, beginning of year	13,929	14,946	7,713
Net income (loss)	2,530	(1,017 )	7,266
Cumulative effect of accounting change	—	—	(13 )
Distribution of PayPal	—	—	(20 )
Balance, end of year	16,459	13,929	14,946
Accumulated other comprehensive income (loss):			
Balance, beginning of year	717	(124 )	526
Change in unrealized gains (losses) on investments	(41 )	(66 )	(794 )
Change in unrealized gains (losses) on derivative instruments	125	(111 )	18
Foreign currency translation adjustment	(286 )	978	(185 )
Tax benefit (provision) on above items	(17 )	40	311
Balance, end of year	498	717	(124 )
Total stockholders' equity	\$6,281	\$8,049	\$10,526
Number of shares:			
Common stock - shares outstanding:			
Balance, beginning of year	1,029	1,087	1,184
Common stock issued	17	24	22
Common stock repurchased/forfeited	(131 )	(82 )	(119 )
Balance, end of year	915	1,029	1,087

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

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

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>		
Cash flows from operating activities:			
Net income (loss)	\$2,530	\$(1,017)	\$7,266
(Income) loss from discontinued operations, net of income taxes	(2	) 4	19
Adjustments:			
Provision for transaction losses	286	272	231
Depreciation and amortization	696	676	682
Stock-based compensation	538	483	416
(Gain) Loss on investments, net	(572	) 49	(1,236
Gain on sale of business	—	(167	) —
Deferred income taxes	(153	) 1,728	(4,556
Change in fair value of warrant	(104	) —	—
Other	19	—	(15
Changes in assets and liabilities, net of acquisition effects			
Accounts receivable	(98	) (195	) (48
Other current assets	(143	) (148	) 23
Other non-current assets	108	19	94
Accounts payable	(47	) 19	(28
Accrued expenses and other liabilities	(437	) 206	(130
Deferred revenue	33	8	4
Income taxes payable and other tax liabilities	7	1,209	105
Net cash provided by continuing operating activities	2,661	3,146	2,827
Net cash used in discontinued operating activities	(3	) —	(1
Net cash provided by operating activities	2,658	3,146	2,826
Cash flows from investing activities:			
Purchases of property and equipment	(651	) (666	) (626
Purchases of investments	(28,115)	(14,599)	(11,212)
Maturities and sales of investments	30,901	14,520	10,063
Equity investment in Flipkart	—	(514	) —
Proceeds from sale of equity investment in Flipkart	1,029	—	—
Acquisitions, net of cash acquired	(302	) (34	) (212
Other	32	(2	) (30
Net cash provided by (used in) investing activities	2,894	(1,295	) (2,017
Cash flows from financing activities:			
Proceeds from issuance of common stock	109	120	102
Repurchases of common stock	(4,502	) (2,746	) (2,943
Tax withholdings related to net share settlements of restricted stock awards and units	(225	) (219	) (121
Proceeds from issuance of long-term debt, net	—	2,484	2,216
Repayment of debt	(750	) (1,452	) (20
Other	(30	) 29	22
Net cash used in financing activities	(5,398	) (1,784	) (744
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(75	) 238	(90
Net increase (decrease) in cash, cash equivalents and restricted cash	79	305	(25
Cash, cash equivalents and restricted cash at beginning of period	2,140	1,835	1,860
Cash, cash equivalents and restricted cash of continuing operations at end of period	\$2,219	\$2,140	\$1,835

F-6

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Supplemental cash flow disclosures:

Cash paid for:

Interest	\$314	\$285	\$220
Income taxes	\$597	\$308	\$492

Noncash investing activities:

Relinquishment of equity method investment	\$266	\$—	\$—
Sale of business in exchange for ownership interest in Flipkart	\$—	\$211	\$—

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

F-7

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**eBay Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

***The Company***

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

When we refer to “we,” “our,” “us” or “eBay” in this 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 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to provisions for transaction losses, legal contingencies, income taxes, revenue recognition, stock-based compensation, investments, goodwill and the recoverability of intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

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

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

Certain prior period amounts have been reclassified on our consolidated financial statements to conform with current year presentation. We have evaluated all subsequent events through the date the consolidated financial statements were issued.





**eBay Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*****Significant Accounting Policies******Revenue recognition***

We recognize revenue when we transfer control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recognized net of any taxes collected, which are subsequently remitted to governmental authorities.

***Net transaction revenues***

Our net transaction revenues primarily include final value fees, feature fees, including fees to promote listings, and listing fees from sellers in our Marketplace and final value fees from sellers and buyers on our StubHub platforms. Our net transaction revenues also include store subscription and other fees often from large enterprise sellers. Our net transaction revenues are reduced by incentives provided to our customers. We identified one performance obligation to sellers on our Marketplace platform, which is to connect buyers and sellers on our secure and trusted Marketplace platforms. Final value fees are recognized when an item is sold on a Marketplace platform, satisfying this performance obligation. There may be additional services available to Marketplace sellers, mainly to promote or feature listings, that are not distinct within the context of the contract. Accordingly, feature and listing fees associated with these services are recognized when the single performance obligation is satisfied when an item is sold, or when the contract expires. On our StubHub platform, our performance obligation extends to both buyers and sellers. We made the policy election to consider delivery of tickets in our StubHub platform to be fulfillment activities and, consequently, the performance obligation is satisfied, and final value fees are recognized, upon payment to sellers. Store subscription and other nonstandard listing contracts may contain multiple performance obligations, including discounts on future services. Determining whether performance obligations should be accounted for separately or combined may require significant judgment. The transaction price is allocated to each performance obligation based on its stand-alone selling price (“SSP”). In instances where SSP is not directly observable, we generally estimate selling prices based on when they are sold to customers of a similar nature and geography. These estimates are generally based on pricing strategies, market factors, strategic objectives and observable inputs. Store subscription revenues are recognized over the subscription period, and discounts offered through store subscription or nonstandard listing contracts are recognized when the options are exercised or when the options expire.

Further, to drive traffic to our platforms, we provide incentives to buyers and sellers in various forms including discounts on fees, discounts on items sold, coupons and rewards. Evaluating whether a promotion or incentive is a payment to a customer may require significant judgment. Promotions and incentives which are consideration payable to a customer are recognized as a reduction of revenue at the later of when revenue is recognized or when we pay or promise to pay the incentive. Promotions and incentives to most buyers on our Marketplace platforms, to whom we have no performance obligation, are recognized as sales and marketing expense. In addition, we may provide credits to customers when we refund certain fees. Credits are accounted for as variable consideration at contract inception when estimating the amount of revenue to be recognized when a performance obligation is satisfied to the extent that it is probable that a significant reversal of revenue will not occur and updated as additional information becomes available.

***Marketing services and other revenues***

Our marketing services and other revenues are derived principally from the sale of advertisements, classifieds fees, and revenue sharing arrangements. Advertising revenue is derived principally from the sale of online advertisements which are based on “impressions” (i.e., the number of times that an advertisement appears in pages viewed by users of our platforms) or “clicks” (which are generated each time

users on our platforms click through our advertisements to an advertiser's designated website) delivered to advertisers. We use the output method and apply the practical expedient to recognize advertising revenue in the amount to which we have a right to invoice. For contracts with target advertising commitments with rebates, estimated payout is accounted for as a variable consideration to the extent it is probable that a significant reversal of revenue will not occur.

We generate net revenues related to fees for listing items on our Classifieds platforms, which are recognized over the estimated period of the classifieds listing and fees to feature the listing that are recognized over the feature

F-9

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

period or a point in time depending on the nature of the feature purchased. Discounts offered through purchase of packages of multiple services are allocated based on the SSP of each respective feature.

Revenues related to revenue sharing arrangements are recognized based on whether we are the principal and are responsible for fulfilling the promise to provide the specified services or whether we are an agent arranging for those services to be provided by our partners. Determining whether we are a principal or agent in these contracts may require significant judgment. If we are the principal, we recognize revenue in the gross amount of consideration received from the customer, whereas if we are an agent, we recognize revenue net of the consideration due to our partners at a point in time when the services are provided. Our most significant revenue share arrangements are with shipping service providers. We are primarily acting as an agent in these contracts and revenues are recognized at a point in time when we have satisfied our promise of connecting the shipping service provider to our customer.

Refer to “Note 5 - Segments” for further information, including revenue by types and geographical markets.  
*Contract balances*

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenue recognized prior to invoicing when we have satisfied our performance obligation and have the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon our assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers’ ability to pay. The allowance for doubtful accounts and authorized credits was \$106 million and \$102 million as of December 31, 2018 and December 31, 2017, respectively. Deferred revenue consists of fees received related to unsatisfied performance obligations at the end of the period. Due to the generally short-term duration of contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized for the twelve months ended December 31, 2018 that was included in the deferred revenue balance at the beginning of the period was \$96 million. The amount of revenue recognized for the twelve months ended December 31, 2017 that was included in the deferred revenue balance at the beginning of the period was \$88 million.

***Internal use software and platform development costs***

Direct costs incurred to develop software for internal use and platform development costs are capitalized and amortized over an estimated useful life of one to five years. During the years ended December 31, 2018 and 2017, we capitalized costs, primarily related to labor and stock-based compensation, of \$147 million and \$140 million, respectively. Amortization of previously capitalized amounts was \$160 million, \$156 million and \$149 million for 2018, 2017 and 2016, respectively. Costs related to the design or maintenance of internal use software and platform development are expensed as incurred.

***Advertising expense***

We expense the costs of producing advertisements at the time production occurs and expense the cost of communicating advertisements in the period during which the advertising space or airtime is used, in each case as sales and marketing expense. Internet advertising expenses are recognized based on the terms of the individual agreements, which are generally over the greater of the ratio of the number of impressions delivered over the total number of contracted impressions, on a pay-per-click basis, or on a straight-line basis over the term of the contract. Advertising expense totaled \$1.4 billion, \$1.3 billion and \$1.2 billion for the years ended December 31, 2018, 2017 and 2016, respectively.



**eBay Inc.**

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

***Stock-based compensation***

We have equity incentive plans under which we grant equity awards, including stock options, restricted stock units (“RSUs”), performance-based restricted stock units, and performance share units, to our directors, officers and employees. We primarily issue RSUs. We determine compensation expense associated with RSUs based on the fair value of our common stock on the date of grant. We determine compensation expense associated with stock options based on the estimated grant date fair value method using the Black-Scholes valuation model. We generally recognize compensation expense using a straight-line amortization method over the respective vesting period for awards that are ultimately expected to vest. Accordingly, stock-based compensation expense for 2018, 2017 and 2016 has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors as well as trends of actual option forfeitures. We recognize a benefit or provision from stock-based compensation in earnings as a component of income tax expense to the extent that an incremental tax benefit or deficiency is realized by following the ordering provisions of the tax law. In addition, we account for the indirect effects of stock-based compensation on the research tax credit and the foreign tax credit through our consolidated statement of income.

***Provision for transaction losses***

Provision for transaction losses consists primarily of losses resulting from our buyer protection programs, fraud and bad debt expense associated with our accounts receivable balance. Provisions for these items represent our estimate of actual losses based on our historical experience and many other factors including changes to our protection programs, the impact of regulatory changes as well as economic conditions.

***Income taxes***

We account for income taxes using an asset and liability approach, which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. If necessary, the measurement of deferred tax assets is reduced by the amount of any tax benefits that are not expected to be realized based on available evidence.

We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We accounted for the tax effects of The Tax Cuts and Jobs Act, enacted on December 22, 2017, on a provisional basis in our 2017 consolidated financial statements. We completed our accounting in the fourth quarter of 2018 within the one year measurement period from the enactment date.

***Cash and cash equivalents***

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

***Investments***

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

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

F-11

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

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

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

***Property and equipment***

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation for equipment, buildings and leasehold improvements commences once they are ready for our intended use. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally, one to three years for computer equipment and software, up to thirty years for buildings and building improvements, the shorter of five years or the term of the lease for leasehold improvements and three years for furniture, fixtures and vehicles. Land is not depreciated.

***Goodwill and intangible assets***

Goodwill is tested for impairment at a minimum on an annual basis. Goodwill is tested for impairment at the reporting unit level. A qualitative assessment can be performed to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using income and market approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow method, a form of the income approach, uses expected future operating results and a market participant discount rate. The market approach uses comparable company prices and other relevant information generated by market transactions (either publicly traded entities or mergers and acquisitions) to develop pricing metrics to be applied to historical and expected future operating results of our reporting units. Failure to achieve these expected results, changes in the discount rate or market pricing metrics may cause a future impairment of goodwill at the reporting unit. We conducted our annual impairment test of goodwill as of August 31, 2018 and 2017 and determined that no adjustment to the carrying value of goodwill for any reporting units was required.

Intangible assets consist of purchased customer lists and user base, marketing related, developed technologies and other intangible assets, including patents and contractual agreements. Intangible assets are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from one to five years. No significant residual value is estimated for intangible assets.



***Impairment of long-lived assets***

We evaluate long-lived assets (including intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the undiscounted future net cash flow the asset is expected to generate. In 2018, 2017 and 2016, no impairment was noted.

F-12

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eBay Inc.

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

***Foreign currency***

Most of our foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated into U.S. dollars using exchange rates prevailing at the balance sheet date, while revenues and expenses are translated at average exchange rates during the year. Gains and losses resulting from the translation of our consolidated balance sheet are recorded as a component of accumulated other comprehensive income.

Gains and losses from foreign currency transactions are recognized as interest and other, net.

***Derivative instruments***

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

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

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

***Concentration of credit risk***

Our cash, cash equivalents, accounts receivable and derivative instruments are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. Our accounts receivable are derived from revenue earned from customers. In each of the years ended December 31, 2018, 2017 and 2016, no customer accounted for more than 10% of net revenues. Our derivative instruments expose us to credit risk to the extent that our counterparties may be unable to meet the terms of the agreements.

***Recently Adopted Accounting Pronouncements***

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

Under the new standard, we identified one performance obligation related to the core service offered to sellers on our Marketplace platform and believe additional services, mainly to promote or feature listings at the option of sellers, are not distinct within the context of the contract. Accordingly, certain fees paid by sellers for these services will be recognized when the single performance obligation is satisfied or when the contract expires resulting, in some cases, in a change in the timing of recognition. In addition, we made the policy election to consider delivery of tickets in our StubHub business to be fulfillment activities and, consequently, the performance obligation is considered to be satisfied upon payment to sellers. The impact of this policy election will allow an acceleration of revenue recognition for certain users. The total impact resulting from the change in timing of recognition for both the Marketplace and StubHub platforms was an immaterial net change in transaction revenue for both the twelve month periods ended December 31, 2017 and 2016, and an increase in deferred revenue of \$20 million and \$19 million as of December 31, 2017 and 2016, respectively.

F-13

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

Further, certain incentives, such as coupons and rewards provided to certain users from which we do not earn revenue within the context of the identified contract, of \$363 million and \$323 million for the twelve months ended December 31, 2017 and 2016, respectively, was recognized as sales and marketing expenses, which historically was recorded as a reduction of revenue.

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

	Year Ended December		Year Ended	
	31, 2017		December 31, 2016	
	As Reported	As Adjusted	As Reported	As Adjusted
Net revenues	\$9,567	\$9,927	\$8,979	\$9,298
Cost of net revenues	\$2,222	\$2,221	\$2,007	\$2,004
Sales and marketing	\$2,515	\$2,878	\$2,368	\$2,691
Net income (loss)	\$(1,016)	\$(1,017)	\$7,266	\$7,266
Net income (loss) per share - basic	\$(0.95 )	\$(0.95 )	\$6.41	\$6.41
Net income (loss) per share - diluted	\$(0.95 )	\$(0.95 )	\$6.35	\$6.35

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. In 2018, the FASB issued certain clarifications related to the application of the new guidance. We adopted this guidance in the first quarter of 2018 with no material impact on our consolidated financial statements at adoption. We anticipate that the standard will increase the volatility of our other income (expense), net, as a result of the remeasurement of equity investments.

In 2016, the FASB issued new guidance that 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. Additionally, the FASB issued new guidance to include restricted cash with cash and cash equivalents when reconciling the beginning-of-the-period and end-of-the-period total amounts shown on the statement of cash flows. The new standards are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We adopted this guidance in the first quarter of 2018 with no material impact on our consolidated financial statements at adoption.

In 2016, the FASB issued new guidance that requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This removes the exception to postpone recognition until the asset has been sold to an outside party. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. It is required to be applied on a modified retrospective basis through a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We adopted this guidance in the first quarter of 2018 with no

material impact on our consolidated financial statements at adoption.

In 2017, the FASB issued new guidance that narrows the application of when an integrated set of assets and activities is considered a business and provides a framework to assist entities in evaluating whether both an input and a substantive process are present to be considered a business. It is expected that the new guidance will reduce the number of transactions that would need to be further evaluated and accounted for as a business. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. We adopted this guidance in the first quarter of 2018 with no material impact on our consolidated financial statements at adoption; however, adoption of the new guidance will impact management's consideration of strategic investments.

In 2017, the FASB issued new guidance to clarify the scope and application of the sale or transfer of nonfinancial assets to noncustomers, including partial sales and also defines what constitutes an "in substance nonfinancial asset"

F-14

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

which can include financial assets. The new guidance eliminates several accounting differences between transactions involving assets and transactions involving businesses. Further, the guidance aligns the accounting for derecognition of a nonfinancial asset with that of a business. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. We adopted this guidance in the first quarter of 2018 with no material impact on our consolidated financial statements at adoption.

In 2017, the FASB issued new guidance to amend the scope of modification accounting for share-based payment arrangements. The amendments in the update provide guidance on types of changes to the terms or conditions of share-based payment awards would be required to apply modification accounting under ASC 718, Compensation-Stock Compensation. The amendments are effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. We adopted this guidance in the first quarter of 2018 with no material impact on our consolidated financial statements at adoption.

In 2017, the FASB issued new guidance to simplify the application of the hedge accounting guidance in current GAAP and improve the financial reporting of hedging relationships by allowing entities to better align its risk management activities and financial reporting for hedging relationships through changes to both designation and measurement for qualifying hedging relationships and the presentation of hedge results. Further, the new guidance allows more flexibility in the requirements to qualify and maintain hedge accounting. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods with early adoption permitted. We early adopted this guidance in the first quarter of 2018 with no material impact on our consolidated financial statements at adoption.

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

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

In 2016, the FASB issued new guidance related to accounting for leases. The new guidance requires the recognition of right-of-use (“ROU”) assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. In 2018, the FASB also approved an amendment that would permit the option to adopt the new standard prospectively as of the effective date, without adjusting comparative periods presented. The new standard will be effective for us beginning January 1, 2019. In preparation for the adoption of the new standard, we have implemented internal controls and a new lease accounting information system to enable the preparation of financial information. We will elect the optional transition approach to not apply the new lease standard in the comparative periods presented and the package of practical expedients. We will also elect the practical expedient to not account for lease and non-lease components separately for data center operating leases. We expect adoption of the standard will result in the recognition of ROU assets and lease liabilities for operating leases of approximately \$700 million to \$800 million at January 1, 2019, with the most significant impact from recognition of ROU assets

and lease liabilities related to our office space, data center, fulfillment center and other corporate asset operating leases. The adoption of the new standard will not have a material impact on our consolidated statement of income, stockholders' equity and cash flows.

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 2017, the FASB issued new guidance to simplify the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure

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

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

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

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

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

In 2018, the FASB issued guidance to permit use of the Overnight Index Swap ("OIS") rate as a U.S. benchmark interest rate for hedge accounting purposes in addition to the UST, the London InterBank Offered Rate ("LIBOR") swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Market Association Municipal Swap Rate. This guidance will be effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. While we continue to assess the potential impact of this standard, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In 2018, the FASB issued new guidance to clarify the interaction between Collaborative Arrangements and Revenue from Contracts with Customers standards. The guidance (1) clarifies that certain transactions between collaborative arrangement participants should be accounted under revenue guidance; (2) adds unit of account guidance to the collaborative arrangement guidance to align with the revenue standard; and



(3) clarifies presentation guidance for transactions with a collaborative arrangement participant that is not accounted for under the revenue standard. The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those annual reporting periods, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

F-16

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**eBay Inc.****NOTES TO 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 presents the computation of basic and diluted net income (loss) per share (in millions, except per share amounts):

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Numerator:			
Income (loss) from continuing operations	\$2,528	\$(1,013)	\$7,285
Income (loss) from discontinued operations, net of income taxes	2	(4)	(19)
Net income (loss)	\$2,530	\$(1,017)	\$7,266
Denominator:			
Weighted average shares of common stock - basic	980	1,064	1,133
Dilutive effect of equity incentive awards	11	—	11
Weighted average shares of common stock - diluted	991	1,064	1,144
Income (loss) per share - basic:			
Continuing operations	\$2.58	\$(0.95)	\$6.43
Discontinued operations	—	—	(0.02)
Net income (loss) per share - basic	\$2.58	\$(0.95)	\$6.41
Income (loss) per share - diluted:			
Continuing operations	\$2.55	\$(0.95)	\$6.37
Discontinued operations	—	—	(0.02)
Net income (loss) per share - diluted	\$2.55	\$(0.95)	\$6.35
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	12	46	8

**Note 3 – Business Combinations***Business Combinations*

In 2018, we completed the acquisition of 100% of Giosis Pte. Ltd.’s (“Giosis”) Japan business, including the Qoo10.jp platform, in exchange for \$306 million in cash and the relinquishment of our existing equity method investment in Giosis. We believe the acquisition allows us to offer Japanese consumers more inventory and grow our international presence. Refer to “Note 6 - Investments” for further details on the relinquishment of our equity method investment in Giosis’ non-Japanese business. The aggregate purchase consideration was allocated as follows (in millions):

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

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

Acquisition activity in 2017 was immaterial.

During 2016, we completed