

EBAY INC  
Form 10-K  
February 06, 2017

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

Form 10-K

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

For the fiscal year ended December 31, 2016.

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 000-24821

eBay Inc.

(Exact name of registrant as specified in its charter)

Delaware 77-0430924  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

2025 Hamilton Avenue 95125  
San Jose, California  
(Address of principal (Zip Code)  
executive offices)

Registrant's telephone number, including area code:  
(408) 376-7400

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class Name of exchange on which registered

Common stock The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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

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

Large accelerated filer  Accelerated filer

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

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

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As of June 30, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$24,544,842,965 based on the closing sale price as reported on The Nasdaq Global Select Market. Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding as of January 30, 2017
Common Stock, \$0.001 par value per share	1,087,042,601

**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 18, 2017.

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## 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,” 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 the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of 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. The technologies and services that power our platforms are designed to enable sellers worldwide to organize and offer their inventory for sale, and buyers to find and purchase it, 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 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, the StubHub mobile apps and Ticketbis. These platforms connect fans with their favorite sporting events, shows and artists and enable them to buy and sell tens of thousands of tickets whenever 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 in more than 1,500 cities around the world, these platforms help people find whatever they are looking for in their local communities.

Our platforms are accessible through a traditional online experience (e.g., desktop and laptop computers), from mobile devices (e.g., smartphones and tablets) and by API (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 application programming interfaces, or APIs, to develop software and solutions for commerce.



## Offerings

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

Our objective is to drive the best choice, the most relevance and the most powerful selling platform for our buyers and sellers. We continue to focus on customizing our buying and selling experiences to make it easier for users to list, find and buy items by offering formats dedicated to specific products or categories. On our Marketplace platforms, we have built specialized experiences such as eBay Deals, which offers a variety of products in multiple categories at discounted prices with free shipping. Other experiences include Fashion, Motors and Electronics.

One of the changes we are making to our Marketplace platform is the shift to better understand, organize and leverage the inventory on eBay. This initiative, which we call structured data, will allow us to expand new experiences to more traffic and drive data quality.

As one of the world's largest ticket marketplaces, StubHub connects people through inspiring live experiences. Event-goers can find more than 10 million live sports, music, theater and other events in more than 40 countries on our StubHub platforms, and can browse, buy and sell anytime, anywhere through desktop and mobile devices.

As a world leader in online classifieds, eBay's Classifieds platforms are designed to help people list their products and services generally for free, find whatever they are looking for in their local communities and trade at a local level. eBay Classifieds Group's 11 global brands offer both horizontal and vertical experiences, such as motors, real estate and jobs.

## Business model and pricing

Our business model and pricing are designed so that our business is successful primarily when our sellers are successful. We partner, but do not compete with, our sellers to enable their success on eBay's platforms. Our eBay 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.

eBay Money Back Guarantee covers most items purchased on our websites in a number of countries, including the U.S., the U.K., Germany and Australia, through a qualifying payment method and protects most buyers with respect to items that are not received or are received but not as described in the listing. Some purchases, including some vehicles, are not covered. eBay Money Back Guarantee provides coverage for the purchase price of the item, plus original shipping costs, for a limited period of time from the original date of transaction, and includes a streamlined interface to help buyers and sellers navigate the process.

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

## Providing value to buyers and sellers

We believe that our sellers offer some of the best value and deals available for a number of consumer products. In the U.S., the U.K. and Germany, the majority of transactions included free shipping during 2016. We have developed a number of features on our Marketplace platforms in the areas of trust and safety (including our Seller Performance Standards, eBay Top Rated Seller program, eBay Money Back Guarantee, Verified Rights Owner Program and Feedback Forum), customer support and value-added tools and services, as well as loyalty programs (for both buyers

and sellers). These features are designed to build trust and make users more comfortable buying and selling with unknown partners and completing transactions online or through mobile devices, as well as rewarding our top sellers for their loyalty.

For sellers in particular, in 2016 we implemented a number of changes to our seller policies to primarily help small- and medium-sized sellers be more successful on our platforms and better reward sellers who provide exceptional service to eBay buyers. These changes included providing more objective standards; giving sellers the ability to customize how they manage returns based on their specific business needs; and launching the Seller Hub, which puts a seller's listing and marketing tools in one central place.



## Offering buyers and sellers choice

We offer choice to buyers and sellers across a number of dimensions.

For sellers, this includes:

Sellers can choose to list their products and services through fixed price listings or an auction-style format on our platforms. The fixed price format on eBay allows buyers and sellers to close transactions at a pre-determined price set by the seller. Sellers also are able to signal that they would be willing to close the transaction at a lower price through the Best Offer feature. Additionally, our auction-style format allows a seller to select a minimum price for opening bids.

Sellers can list items that are new, refurbished and used, and common and rare on our Marketplace platforms.

For buyers, this includes:

Buyers can search for and purchase items that are new, refurbished and used, and common and rare on our Marketplace platforms.

Buyers also can have items shipped to them through shipping options offered by the seller and selected by the buyer on our Marketplace platforms. For certain items purchased from certain retailers, buyers can pick up items they purchased online or through mobile devices in one of the retailer's physical stores (which we refer to as in-store pickup).

## Our Impact and Responsibility

eBay was founded on the simple belief that people are basically good. Our technology has levelled the playing field by enabling people to connect and trade around the world, regardless of their circumstances or location. We believe that commerce should be not just transactional but rather transformational. Through our platforms, we are creating a better, more sustainable form of commerce that empowers people and creates opportunity. And we are committed to reducing the environmental impact of our platform by increasing efficiency, expanding our use of cleaner energy and using our global marketplace to extend the life of goods in a more circular economy.

## 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 and StubHub platforms during the applicable period, regardless of whether the buyer and seller actually consummated the transaction.

At the end of 2016, our Marketplace and StubHub platforms had more than 167 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 and 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 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. In 2016, we generated \$84 billion in GMV, of which approximately 59% was generated outside the U.S.

For additional financial information as well as the geographic areas where we conduct business, please see "Note 6 - Segments" to the consolidated financial statements included in this report. Additionally, please see the information in "Item 1A: Risk Factors" under the caption "Our international operations are subject to increased risks, which may harm our business," which describes risks associated with eBay Inc.'s foreign operations.



## Notable Business Transactions in 2016

eBay makes acquisitions to help enable commerce on our platforms for buyers and sellers. In 2016, eBay completed six acquisitions — Cargigi Inc., Expertmaker, SalesPredict, Ticketbis, Ticket Utils and Corrigan Ltd. — for an aggregate purchase consideration of approximately \$212 million, consisting of cash. We believe these acquisitions will help us build a better user experience, improve discoverability and grow our international presence. See “Note 3 - Business Combinations and Divestitures” to the consolidated financial statements included in this report for additional information.

We also regularly review and manage our investments to ensure that our investments support eBay’s strategic direction and complement our disciplined approach to value creation, profitability and capital allocation. During the fourth quarter of 2016, we sold our equity holdings of MercadoLibre, Inc. for a pre-tax gain of \$1.3 billion.

## Competition

We encounter vigorous competition in our business from numerous sources. Our users can find, 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 these risks, 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. 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 these 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 utilize 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. We strive to continually improve our technology to enhance the buyer and seller experience and to increase efficiency, scalability and security. Additionally, we recently embarked on a multi-year evolution of our shopping platform that aims to deliver relevant, persistent and personalized experiences for consumers. 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.”

## 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 its 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, 2016, we employed approximately 12,600 people globally. Approximately 6,600 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 <https://investors.ebayinc.com>. We make available free of charge on our investor relations website under the heading “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 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 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. Also, certain platform businesses, such as Alibaba, Apple, Google and Facebook, many of whom are larger than us or have greater capitalization, have a dominant and secure position in other industries or certain significant markets, and offer other goods and services to consumers and merchants that we do not offer. If we are unable to change our products, offerings and services in ways that reflect the changing demands of ecommerce and mobile commerce marketplaces, particularly the higher growth of sales of fixed-price items and higher expected service levels (some of which depend on services provided by sellers on our platforms), or compete effectively with

and adapt to changes in larger platform businesses, our business will suffer.

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

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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, Sears, Macy's, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam's Club, Rakuten, Yahoo! Shopping, MSN, QVC and Home Shopping Network, among others. In addition, consumers have a large number of online and offline channels focused on one or more of the categories of products offered on our site.

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

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

Our online shopping comparison websites (Shopping.com) compete with sites such as Google Shopping, Rakuten, Nextag.com, Pricegrabber.com, Shopzilla, Buscapé in Latin America (owned by Naspers) and Yahoo! Product Search, which offer shopping search engines that allow consumers to search the Internet for specified products. In addition, sellers are increasingly utilizing multiple sales channels, including the acquisition of new customers by paying for search-related advertisements on horizontal search engine sites, such as Google, Yahoo!, Naver and Baidu. We use product search engines and paid search advertising to help users find our sites, but these services also have the potential to divert users to other online shopping destinations. Consumers may choose to search for products and services with a horizontal search engine or shopping comparison website, and such sites may also send users to other shopping destinations.

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

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

The principal competitive factors for us include the following:

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

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

Global and regional economic conditions could harm our business.

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

We are exposed to fluctuations in foreign currency exchange rates.

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

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

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

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

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

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

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

Cross-border trade is an important source of both revenue and profits for us. Cross-border trade also represents our primary (or in some cases, only) presence in certain important markets, such as Brazil/Latin America, China, and

various other countries. In addition, our cross-border trade is also subject to, and may be impacted by, foreign exchange rate fluctuations.

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

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

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

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

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

Mobile devices are increasingly used for ecommerce transactions. A significant and growing portion of our users access our platforms through mobile devices. We may lose users if we are not able to continue to meet our users' mobile and multi-screen experience expectations. The variety of technical and other configurations across different mobile devices and platforms increases the challenges associated with this environment. In addition, a number of other companies with significant resources and a number of innovative startups have introduced products and services focusing on mobile markets.

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

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

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

Our business is subject to extensive government regulation and oversight.

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



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

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

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

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

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

We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), subject us to significant penalties and negative publicity, require us to change our business

practices, increase our costs and adversely affect our business. Data collection, privacy and security have become the subject of increasing public concern. If Internet and mobile users were to reduce their use of our websites, mobile platforms, products, and services as a result of these concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Other laws and regulations could harm our business.

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

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

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

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

As we expand and localize our international activities, we are increasingly becoming obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to users worldwide, one or more jurisdictions may claim that we or our users are required to comply with their laws based on the location of our servers or one or more of our users, or the location of the product or service being sold or provided in an ecommerce transaction. For example, we were found liable in France, under French law, for transactions on some of our websites worldwide that did not involve French buyers or sellers. Laws regulating Internet, mobile and ecommerce technologies outside of the United States

are generally less favorable to us than those in the United States. Compliance may be more costly or may require us to change our business practices or restrict our service offerings, and the imposition of any regulations on us or our users may harm our business. In addition, we may be subject to multiple overlapping legal or regulatory regimes that impose conflicting requirements on us (e.g., in cross-border trade). Our alleged failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to significant fines to bans on our services, in addition to the significant costs we may incur in defending against such actions.

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

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

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

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

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

We are subject to patent litigation.

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

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

Such claims may be brought directly against us and/or against our customers whom we may indemnify either because we are contractually obligated to do so or we choose to do so as a business matter. We believe that an increasing number of these claims against us and other technology companies have been, and continue to be, initiated by third

parties whose sole or primary business is to assert such claims. In addition, we have seen significant patent disputes between operating companies in some technology industries. Patent claims, whether meritorious or not, are time-consuming and costly to defend and resolve, and could require us to make expensive changes in our methods of doing business, enter into costly royalty or licensing agreements, make substantial payments to satisfy adverse judgments or settle claims or proceedings, or cease conducting certain operations, which would harm our business.

We have identified a material weakness in our internal control over financial reporting which, if not remediated, could adversely affect our reputation, business or stock price.

In reviewing the accounting for certain transactions we completed in December 2016, as part of the realignment of our legal structure, as described below under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operation - Provision for Income Taxes,” our management identified a deficiency in the effectiveness of a control intended to properly document and review relevant facts and apply the appropriate tax accounting under standards generally accepted in the United States of America, which impacted the Deferred tax asset and Income tax benefit accounts and related disclosures. As described under “Item 9A - Controls and Procedures,” our management has concluded that the deficiency constitutes a material weakness in our internal control over financial reporting and, as a result, internal control over financial reporting was not effective as of December 31, 2016.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Although we have developed and are implementing a plan to remediate this material weakness and believe, based on our evaluation to date, that this material weakness will be remediated during 2017, we cannot assure you that this will occur within the contemplated timeframe. Moreover, we cannot assure you that we will not identify additional material weaknesses in our internal control over financial reporting in the future. If we are unable to remediate the material weakness, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission, could be adversely affected. The occurrence of or failure to remediate the material weakness may adversely affect our reputation and business and the market price of our common stock and any other securities we may issue.

We are exposed to fluctuations in interest rates.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

spend substantial resources to take additional protective measures or discontinue certain service offerings in order to combat these practices. In addition, we have received significant media attention relating to the listing or sale of illegal or counterfeit goods, which could damage our reputation, diminish the value of our brand names, and make users reluctant to use our products and services.

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

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

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

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

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

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

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

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

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

with some of our customers. Our failure to obtain necessary license or other rights, or litigation or claims arising out of intellectual property matters, may harm our business.

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

We face risks with respect to fraudulent activities on our platforms and periodically receive complaints from buyers and sellers who may not have received the goods that they had contracted to purchase or payment for the goods that a buyer had contracted to purchase. In some European and Asian jurisdictions, buyers may also have the right to withdraw from a sale made by a professional seller within a specified time period. While we can, in some cases, suspend the accounts of users who fail to fulfill their payment or delivery obligations to other users, we do not have the ability to require users to make payment or deliver goods, or otherwise make users whole other than through its buyer protection program, which in the United States we refer to as the eBay Money Back Guarantee. Although we have implemented measures to detect and reduce the occurrence of fraudulent activities, combat bad buyer experiences and increase buyer satisfaction, including evaluating sellers on the basis of their transaction history and restricting or suspending their activity, there can be no assurance that these measures will be effective in combating fraudulent transactions or improving overall satisfaction among sellers, buyers, and other participants. Additional measures to address fraud could negatively affect the attractiveness of our services to buyers or sellers, resulting in a reduction in the ability to attract new users or retain current users, damage to our reputation, or a diminution in the value of our brand names.

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

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

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

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

- repatriate funds to the United States at substantial tax cost;

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets; or
- reduce or delay planned capital or operating expenditures.

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

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

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

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

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

Our business and users may be subject to sales tax and other taxes.

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

We do not collect taxes on the goods or services sold by users of our services. However, some jurisdictions have implemented, or may implement, laws that require remote sellers of goods and services to collect and remit taxes on

sales to customers located within the jurisdiction. In particular, the Streamlined Sales Tax Project (an ongoing, multi-year effort by U.S. state and local governments to pursue federal legislation that would require collection and remittance of sales tax by out-of-state sellers) could allow states that meet certain simplification and other criteria to require out-of-state sellers to collect and remit sales taxes on goods purchased by in-state residents. The adoption of such legislation could result in a use tax collection responsibility for certain of our sellers. This collection responsibility and the additional costs associated with complex use tax collection, remittance and audit requirements would make selling on our websites and mobile platforms less attractive for small business retailers and would harm our business, and the proliferation of



state legislation to expand sales and use tax collection on Internet sales could adversely affect some of our sellers and indirectly harm our business.

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

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

Similar issues exist outside of the United States, where the application of VAT or other indirect taxes on ecommerce providers is complex and evolving. While we attempt to comply in those jurisdictions where it is clear that a tax is due, some of our subsidiaries have, from time to time, received claims relating to the applicability of indirect taxes to our fees. We have been paying VAT on fees charged to certain of our users in the European Union based on the service provider's location. On January 1, 2015, changes to the rules determining the place of supply (and thus the country of taxation) for all European Union based providers of electronically supplied services were implemented that require that we pay VAT based on the residence or normal place of business of our customers. These changes may result in our paying a higher rate of VAT on such fees. Additionally, we pay input VAT on applicable taxable purchases within the various countries in which we operate. In most cases, we are entitled to reclaim this input VAT from the various countries. However, because of our unique business model, the application of the laws and rules that allow such reclamation is sometimes uncertain. A successful assertion by one or more countries that we are not entitled to reclaim VAT could harm our business.

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

A taxing authority may seek to impose a tax collection, reporting or record-keeping obligation on companies that engage in or facilitate ecommerce. For example, the U.S. Internal Revenue Service ("IRS") now requires that certain payments to sellers be reported to the sellers and the IRS on an annual basis. Any failure by us to meet these requirements could result in substantial monetary penalties and other sanctions and could harm our business. Taxing authorities may also seek to impose tax collection or reporting obligations based on the location of the product or service being sold or provided in an ecommerce transaction, regardless of where the respective users are located. Some jurisdictions could assert that we are responsible for tax on the underlying goods or services sold on our sites. Imposition of a record keeping or tax collecting requirement could decrease seller activity on our sites and would harm our business. Tax authorities may also require us to help ensure compliance by our users by promulgating legislation regulating professional sellers, including tax reporting and collection requirements. In addition, we have periodically received requests from tax authorities in many jurisdictions for information regarding the transactions of large classes of sellers on our sites, and in some cases we have been legally obligated to provide this data. The imposition of any requirements on us to disclose transaction records for all or a class of sellers to tax or other regulatory authorities or to file tax forms on behalf of any sellers, especially requirements that are imposed on us but not on alternative means of ecommerce, and any use of those records to investigate, collect taxes from or prosecute sellers, could decrease seller activity on our sites and harm our business.



We may have exposure to greater than anticipated tax liabilities.

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

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

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

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

One or more states, the U.S. federal government or foreign countries may seek to impose reporting or record-keeping obligations on companies that engage in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance (and legislation to such effect has been contemplated by several states and a number of foreign jurisdictions) or if one of our companies was ever deemed to be the legal agent of the users of our services by a jurisdiction in which it operates. Certain of our companies are required to report to the Internal Revenue Service (IRS) on customers subject to U.S. income tax who receive more than \$20,000 in payments and more than 200 payments in a calendar year. As a result, we are required to request tax identification numbers from certain payees, track payments by tax identification number and, under certain conditions, withhold a portion of payments and forward such withholding to the IRS. We have modified our systems to meet these requirements and expect increased operational costs and changes to our user experience in connection with complying with these reporting obligations. Any failure by us to meet these requirements could result in substantial monetary penalties and other sanctions and could harm our business.

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

Our businesses involve the storage and transmission of users' personal financial information. In addition, a significant number of our users authorize us to bill their payment card accounts directly for all transaction and other fees charged by us. An increasing number of websites, including those owned by several other large Internet and offline companies, have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their websites or infrastructure. The techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems, change frequently, may be difficult to detect for a long time, and often are not recognized until launched against a target. Certain efforts may be state sponsored and supported by significant financial and technological resources and therefore may be even more difficult to detect. As a result, we

may be unable to anticipate these techniques or to implement adequate preventative measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving our employees, contractors and temporary staff. A party that is able to circumvent our security measures could misappropriate our or our users' personal information, cause interruption or degradations in our operations, damage our computers or those of our users, or otherwise damage our reputation. In addition, our users have been and likely will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate user names, passwords, payment card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to our users' computers. Our information technology and infrastructure may be vulnerable to cyberattacks or security incidents and third parties may be able to access our users' proprietary information and payment card data that are stored on or accessible through our systems. Any security breach at a company providing services to us or our users could have similar effects.

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

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

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

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

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

services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of systems failures and similar events.

Acquisitions, dispositions, joint ventures, and strategic investments could result in operating difficulties and could harm our business.

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

These transactions may involve significant challenges and risks, including:

- the potential loss of key customers, merchants, vendors and other key business partners of the companies we acquire, or dispose of, following and continuing after announcement of our transaction plans;
- declining employee morale and retention issues affecting employees of companies that we acquire or dispose of, which may result from changes in compensation, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- difficulty making new and strategic hires of new employees;
- diversion of management time and a shift of focus from operating the businesses to the transaction, and in the case of an acquisition, integration and administration;
- the need to provide transition services to a disposed of company, which may result in the diversion of resources and focus;
- the need to integrate the operations, systems (including accounting, management, information, human resource and other administrative systems), technologies, products and personnel of each acquired company, which is an inherently risky and potentially lengthy and costly process;
- the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise as a result;
- the need to implement or improve controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition may have lacked such controls, procedures and policies or whose controls, procedures and policies did not meet applicable legal and other standards;
- risks associated with our expansion into new international markets;
- derivative lawsuits resulting from the acquisition or disposition;
- liability for activities of the acquired or disposed of company before the transaction, including intellectual property and other litigation claims or disputes, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities and, in the case of dispositions, liabilities to the acquirors of those businesses under contractual provisions such as representations, warranties and indemnities;
- the potential loss of key employees following the transaction;
- the acquisition of new customer and employee personal information by us or a third party acquiring assets or businesses from us, which in and of itself may require regulatory approval and or additional controls, policies and procedures and subject us to additional exposure; and
  - our dependence on the acquired business' accounting, financial reporting, operating metrics and similar systems, controls and processes and the risk that errors or irregularities in those systems, controls and processes will lead to errors in our consolidated financial statements or make it more difficult to manage the acquired business.

At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions and any of these transactions could be material to our financial condition and results of operations. In addition, it may take us longer than expected to fully realize the anticipated benefits of these transactions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our

business and operating results. Any acquisitions or dispositions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), liabilities, and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders.

We have made certain investments, including through joint ventures, in which we have a minority equity interest and/or lack management and operational control. The controlling joint venture partner in a joint venture may have business interests, strategies, or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or



adversely affect the value of our investment in the joint venture. Our strategic investments may also expose us to additional risks. Any circumstances, which may be out of our control, that adversely affect the value of our investments, or cost resulting from regulatory action or lawsuits in connection with our investments, could harm our business or negatively impact our financial results.

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

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

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

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

Price increases by, or service terminations, disruptions or interruptions at, companies that provide services to us and our sellers and clients could also reduce the number of listings on our platforms or make it more difficult for our sellers to complete transactions, thereby harming our business. Some third parties who provide services to us or our sellers may have or gain market power and be able to increase their prices to us without competitive constraint. In addition, the U.S. Postal Service, which is facing ongoing fiscal challenges, has instituted postal rate increases and announced that it is considering closing thousands of local post offices and ending Saturday mail delivery. While we continue to work with global carriers to offer our sellers a variety of shipping options and to enhance their shipping experience, postal rate increases may reduce the competitiveness of certain sellers’ offerings, and postal service changes could require certain sellers to utilize alternatives which could be more expensive or inconvenient, which could in turn decrease the number of transactions on our sites, thereby harming our business.

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

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



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

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

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

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

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

We have received an opinion from outside tax counsel to the effect that the Distribution qualifies as a transaction that is described in Sections 355 and 368(a)(1)(D) of the Internal Revenue Code. The opinion relies on certain facts, assumptions, representations and undertakings from PayPal and us regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, our shareholders and we may not be able to rely on the opinion of tax counsel and could be subject to significant tax liabilities. Notwithstanding the opinion of tax counsel we have received, the IRS could determine on audit that the Distribution is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion. If the Distribution is determined to be taxable for U.S. federal income tax purposes, our shareholders that are subject to U.S. federal income tax and we could incur significant U.S. federal income tax liabilities.

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

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

#### ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 2: PROPERTIES

We own and lease various properties in the U.S. and 34 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 occupy approximately 0.5 million square feet. Our owned data centers are primarily located in Utah. As of December 31, 2016, our owned and leased properties provided us with aggregate square footage as follows (in millions):

	United States	Other Countries	Total
Owned facilities	1.1	—	1.1
Leased facilities	0.8	2.0	2.8
Total facilities	1.9	2.0	3.9

From time to time we consider various alternatives related to 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

### Litigation and Other Legal Matters

#### Overview

We are involved in legal and regulatory proceedings on an ongoing basis. Many of these proceedings are in early stages and may seek an indeterminate amount of damages. If we believe that a loss arising from such matters is probable and can be reasonably estimated, we accrue the estimated liability in our financial statements. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range. For those proceedings in which an unfavorable outcome is reasonably possible but not probable, we have disclosed an estimate of the reasonably possible loss or range of losses or we have concluded that an estimate of the reasonably possible loss or range of losses arising directly from the proceeding (i.e., monetary damages or amounts paid in judgment or settlement) are not material. If we cannot estimate the probable or reasonably possible loss or range of losses arising from a proceeding, we have disclosed that fact. In assessing the materiality of a proceeding, we 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, 2016. 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.

#### Litigation

In March 2015, StubHub filed suit against Ticketmaster and the Golden State Warriors, alleging antitrust and various state law violations arising out of the defendants' restrictive ticketing practices, which include prohibiting the resale of Warriors tickets on StubHub or any other non-Ticketmaster secondary exchange (StubHub, Inc. v. Golden State Warriors, LLC et al, N.D. Cal. No. 3:15-cv-01436). StubHub filed a First Amended Complaint on June 30, 2015. The defendants filed a Motion to Dismiss the Amended Complaint which was granted in November 2015. StubHub will no longer pursue appealing this decision.

#### Regulatory Proceedings

In May 2014, we publicly announced that criminals were able to penetrate our network and steal certain data, including user names, encrypted user passwords and other non-financial user data. Upon making this announcement, we required all buyers and sellers on our platform to reset their passwords in order to login to their account. In addition to making this public announcement, we proactively approached a number of regulatory and governmental bodies, including those with the most direct supervisory authority over our data privacy and data security programs, to specifically inform them of the incident and our actions to protect our customers in response. Certain of those regulatory agencies have requested us to provide further, more detailed information regarding the incident, and we believe that we have fully cooperated in all of those requests. To date, we have not been informed by any regulatory

authority of an intention to bring any enforcement action arising from this incident; however, in the future we may be subject to fines or other regulatory action. In addition, in July 2014, a putative class action lawsuit was filed against us for alleged violations and harm resulting from the incident. The lawsuit was dismissed with leave to amend.

## General Matters

Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to patent disputes, and expect that we will increasingly be subject to additional patent infringement claims involving various aspects of our business as our products and services continue to expand in scope and complexity. Such claims may be brought directly or indirectly against our companies and/or against our customers (who may be entitled to contractual indemnification under their contracts with us), and we are subject to increased exposure to such claims as a result of our acquisitions and divestitures and in cases where we are entering new lines of business. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are interpreted by the courts, and as we expand the scope of our business (both in terms of the range of products and services that we offer and our geographical operations) and become subject to laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries like ourselves are either unclear or less favorable. We believe that additional lawsuits alleging that we have violated patent, copyright or trademark laws will be filed against us. Intellectual property claims, whether meritorious or not, are time consuming and costly to defend and resolve, could require expensive changes in our methods of doing business or could require us to enter into costly royalty or licensing agreements on unfavorable terms.

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

## Indemnification Provisions

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

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

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain cases, we have

agreed to provide indemnification for intellectual property infringement. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in our 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

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## PART II

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

## Price Range of Common Stock

Our common stock has been traded on The Nasdaq Global Select Market under the symbol "EBAY" since September 24, 1998. The following table sets forth the high and low closing sale prices per share of our common stock, as actually reported by The Nasdaq Global Select Market for the following periods.

	High	Low
Year Ended December 31, 2016		
First Quarter	\$26.65	\$22.01
Second Quarter	25.43	22.72
Third Quarter	32.90	23.76
Fourth Quarter	32.56	27.39
	High	Low
Year Ended December 31, 2015		
First Quarter <sup>(1)</sup>	\$60.81	\$53.00
Second Quarter <sup>(1)</sup>	63.23	55.79
Third Quarter to July 17, 2015 <sup>(1)</sup>	66.29	60.43
Third Quarter from July 20, 2015	28.75	24.08
Fourth Quarter	29.59	24.00

The prices on and before July 17, 2015 include the value of PayPal Holdings, Inc. ("PayPal"), which was distributed (1) on that date. Subsequent to the Distribution of PayPal on July 17, 2015, the Nasdaq Global Select Market restated the historical prices of our common stock for all periods prior to the Distribution to exclude the value of PayPal.

As of January 30, 2017, there were approximately 3,919 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

We have never paid cash dividends on our stock and do not anticipate paying cash dividends in the foreseeable future.

### 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, 2011 (the last trading day for the year ended December 31, 2011) in (i) our common stock, (ii) the Nasdaq Composite Index, (iii) the S&P 500 Index and (iv) the S&P Information Technology Index. The S&P Information Technology Index replaces the S&P North American Technology Internet Index, which is no longer tracked by S&P. 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, 2016 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, 2016	4,814,400	\$ 28.93	4,814,400	
November 30, 2016	15,298,049	\$ 28.48	15,298,049	
December 31, 2016	14,454,674	\$ 29.40	14,454,674	\$ 1,336,231,167
	34,567,123		34,567,123	

In January 2015, our Board of Directors (the “Board”) authorized a stock repurchase program that provided for the repurchase of up to \$2 billion of our common stock. In June 2015, our Board authorized an additional \$1 billion stock repurchase program and in July 2016, our Board authorized an additional \$2.5 billion stock repurchase program. These stock repurchase programs have no expiration from the date of authorization.

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

During the three months ended December 31, 2016, we repurchased approximately \$1.0 billion of our common stock under our stock repurchase programs. As of December 31, 2016, a total of approximately \$1.3 billion remained available for future repurchases of our common stock under our July 2016 repurchase program.

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

(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 for the years ended December 31, 2016, 2015, 2014 and 2013 are derived from our audited consolidated financial statements. The consolidated balance sheet data as of December 31, 2013 and 2012, and consolidated statement of income for the year ended December 31, 2012 are derived from our unaudited consolidated financial statements.

	Year Ended December 31,				
	2016 (5)	2015	2014 (2)	2013	2012
	(In millions, except per share amounts)				
Consolidated Statement of Income Data: (1)					
Net revenues	\$8,979	\$8,592	\$8,790	\$8,257	\$7,371
Gross profit	6,972	6,821	7,127	6,765	6,126
Income from operations	2,325	2,197	2,476	2,454	2,165
Income from continuing operations before income taxes	3,651	2,406	2,515	2,571	2,355
Income (loss) from continuing operations	7,285	1,947	(865 )	2,067	1,931
Income (loss) per share from continuing operations:					
Basic	\$6.43	\$1.61	\$(0.69 )	\$1.60	\$1.49
Diluted	\$6.37	\$1.60	\$(0.69 )	\$1.57	\$1.47
Weighted average shares:					
Basic	1,133	1,208	1,251	1,295	1,292
Diluted	1,144	1,220	1,251	1,313	1,313
	As of December 31,				
	2016 (5)	2015	2014	2013	2012
	(In millions)				
Consolidated Balance Sheet Data: (1)					
Cash and cash equivalents	\$1,816	\$1,832	\$4,105	\$2,848	\$5,294
Short-term investments	5,333	4,299	3,730	4,204	2,533
Long-term investments	3,969	3,391	5,736	4,747	2,848
Working capital - continuing operations	5,028	5,641	4,463	6,649	7,404
Working capital - discontinued operations	—	—	4,537	3,995	3,070
Working capital total (3)	5,028	5,641	9,000	10,644	10,474
Total assets - continuing operations	23,847	17,785	21,716	20,236	18,708
Total assets - discontinued operations	—	—	23,416	21,252	18,366
Total assets	23,847	17,785	45,132	41,488	37,074
Short-term debt	1,451	—	850	2	402
Long-term debt	7,509	6,779	6,777	4,106	4,089
Total stockholders’ equity(4)	10,539	6,576	19,906	23,647	20,865

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

The consolidated statement of income data for the year ended December 31, 2014 includes an income tax provision (2) 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 and prior years.

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

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

The consolidated balance sheet data for the year ended December 31, 2016 includes the impact of a \$4.6 billion deferred tax benefit recognized in the fourth quarter of 2016 as a result of the initial stages of realigning our legal structure and the associated tax rulings. 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.

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## 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,” 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 SEC. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should read the following Management’s Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the consolidated financial statements and the related notes included in this report.

## OVERVIEW

## Business

eBay Inc. is a global commerce leader, which includes our Marketplace, StubHub and Classifieds platforms. Our Marketplace platforms include our online marketplace located at [www.ebay.com](http://www.ebay.com), its localized counterparts and the eBay mobile apps. Our StubHub platforms include our online ticket platform located at [www.stubhub.com](http://www.stubhub.com), the StubHub mobile apps and Ticketbis. 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
2014				
Net revenues	\$2,149	\$2,168	\$2,150	\$2,323
Percent change from prior quarter	(6)%	1%	(1)%	8%
2015				
Net revenues	\$2,061	\$2,110	\$2,099	\$2,322
Percent change from prior quarter	(11)%	2%	(1)%	11%
2016				
Net revenues	\$2,137	\$2,230	\$2,217	\$2,395
Percent change from prior quarter	(8)%	4%	(1)%	8%



### Impact of Foreign Currency Exchange Rates

Our commerce platforms operate globally, resulting in certain revenues that are denominated in foreign currencies, primarily the Euro, British pound, Korean won and Australian dollar, subjecting us to foreign currency risk which may adversely impact our financial results. Because of this and the fact that we generated a majority of our net revenues internationally during the years ended December 31, 2016, 2015 and 2014, we are subject to the risks related to doing business in foreign countries as discussed under “Part I - 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 (“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 in “Non-GAAP Measure 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 2016 was due to the strengthening of the U.S. dollar against other currencies, primarily the British pound, Korean won, Canadian dollar and Australian dollar.

### Fiscal Year Highlights

Net revenues increased 5% to \$9.0 billion in 2016 compared to 2015, primarily driven by StubHub net transaction revenues and marketing, services and other revenues, partially offset by an unfavorable impact from foreign currency movements relative to the U.S. dollar. FX-Neutral net revenues increased 7% in 2016 compared to 2015.

In the fourth quarter of 2016, we recognized a tax benefit of \$4.6 billion as a result of the initial stages of realigning our legal structure and the associated tax rulings. In addition, we sold our equity holdings of MercadoLibre, Inc. for net proceeds of \$1.3 billion. The pre-tax gain of \$1.3 billion was recorded in interest and other, net on our consolidated statement of income.

Operating margin increased to 25.9% in 2016 compared to 25.6% in 2015. Diluted earnings per share from continuing operations increased to \$6.37 for 2016 compared to \$1.60 for 2015. In addition, we generated cash flow from continuing operating activities of \$2.8 billion in 2016 compared to \$2.9 billion in 2015.



## 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 consists of Marketplace, StubHub and Classifieds revenue principally from the sale of advertisements, vehicles classifieds listing on Marketplace platforms, revenue sharing arrangements, classifieds fees, marketing service fees and lead referral fees. 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 in the form of coupons and buyer and seller rewards. These incentives are generally treated as reductions in revenue.

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

	Year Ended December 31,					
	2016	% Change	2015	% Change	2014	
Net Revenues by Type:						
Net transaction revenues:						
Marketplace	\$6,107	— %	\$6,103	(4 )%	\$6,351	
StubHub	937	29 %	725	15 %	629	
Total net transaction revenues	7,044	3 %	6,828	(2 )%	6,980	
Marketing services and other revenues:						
Marketplace	1,137	6 %	1,078	(2 )%	1,103	
Classifieds	791	13 %	703	(2 )%	716	
StubHub, Corporate and other	7	**	(17 )	**	(9 )	
Total marketing services and other revenues	1,935	10 %	1,764	(3 )%	1,810	
Total net revenues	\$8,979	5 %	\$8,592	(2 )%	\$8,790	
Net Revenues by Geography:						
U.S.	\$3,866	7 %	\$3,624	3 %	\$3,525	
International	5,113	3 %	4,968	(6 )%	5,265	
Total net revenues	\$8,979	5 %	\$8,592	(2 )%	\$8,790	

\*\* Not meaningful

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,					
	2016	% Change	2015	% Change	2014	
Supplemental Operating Data:						
GMV <sup>(1)</sup> :						
Marketplace	\$79,448	2 %	\$78,099	(2 )%	\$79,581	
StubHub	4,310	21 %	3,574	13 %	3,172	
Total GMV	\$83,758	3 %	\$81,673	(1 )%	\$82,753	

Transaction take rate:

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Marketplace <sup>(2)</sup>	7.69	% (0.12)%	7.81	% (0.17)%	7.98	%
StubHub <sup>(3)</sup>	21.76	% 1.47 %	20.29	% 0.46 %	19.83	%
Total transaction take rate <sup>(4)</sup>	8.41	% 0.05 %	8.36	% (0.07)%	8.43	%

We define Gross Merchandise Volume (“GMV”) as the total value of all successfully closed transactions between (1) 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.

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

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

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

#### Net Transaction Revenues

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

	Year Ended December 31,		% Change			Year Ended December 31,		% Change		
	2016	2015	As Reported	FX-Neutral		2015	2014	As Reported	FX-Neutral	
Total net transaction revenues	7,044	6,828	3	% 6	%	6,828	6,980	(2)	% 4	%
Percentage of net revenues	78	% 79	%			79	% 79	%		
Total GMV	83,758	81,673	3	% 5	%	81,673	82,753	(1)	% 5	%
Total transaction take rate	8.41	% 8.36	%	0.05	%	8.36	% 8.43	%	(0.07)	%

The increase in net transaction revenues in 2016 compared to 2015 was primarily driven by an increase in StubHub GMV and a higher transaction take rate, partially offset by an unfavorable impact from foreign currency movements relative to the U.S. dollar. The total transaction take rate was higher in 2016 compared to 2015 due to an increase in our StubHub transaction take rate, partially offset by a decrease in our Marketplace transaction take rate.

The decrease in net transaction revenues in 2015 compared to 2014 was primarily driven by an unfavorable impact from foreign currency movements relative to the U.S. dollar and a lower transaction take rate, partially offset by an increase in FX-Neutral Marketplace GMV, and to a lesser extent, StubHub GMV. The total transaction take rate was lower in 2015 compared to 2014 due to a decrease in our Marketplace transaction take rate, partially offset by an increase in our StubHub transaction take rate.

Net transaction revenues earned internationally totaled \$3.8 billion, \$3.8 billion and \$4.0 billion in 2016, 2015 and 2014, respectively, representing 54%, 55% and 57% of total net transaction revenues in the respective periods. The decrease in net transaction revenues earned internationally as a percentage of total net transaction revenue in 2016 compared to 2015, and in 2015 compared to 2014 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		
	2016	2015	As Reported	FX-Neutral		2015	2014	As Reported	FX-Neutral	
Marketplace transaction revenues	6,107	6,103	—	% 3	%	6,103	6,351	(4)	% 3	%

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Marketplace GMV	79,448	78,099	2	%	5	%	78,099	79,581	(2)	)%	5	%
Marketplace take rate	7.69	%	7.81	%	(0.12)%		7.81	%	7.98	%	(0.17)%	

The increase in Marketplace net transaction revenues in 2016 compared to 2015 was primarily driven by an increase in volume in local currencies on our Marketplace platforms internationally, partially offset by an unfavorable impact from foreign currency movements relative to the U.S. dollar. The increase in FX-Neutral Marketplace net transaction revenue was less than the increase in FX-Neutral Marketplace GMV due to a lower Marketplace transaction take rate. The Marketplace transaction take rate was lower in 2016 compared to 2015 primarily due to a shift in seller mix and an increase in our buyer and seller incentives.

The decrease in Marketplace net transaction revenues and Marketplace GMV in 2015 compared to 2014 was primarily due to an unfavorable impact from foreign currency movements relative to the U.S. dollar. This decrease was partially offset by an increase in FX-Neutral Marketplace GMV that was primarily driven by an increase in volume in local currencies on our Marketplace platforms internationally and to a lesser extent, the U.S. The increase in FX-Neutral Marketplace net transaction revenue was less than the increase in FX-Neutral Marketplace GMV due to a lower Marketplace transaction take rate. The Marketplace transaction take rate was lower in 2015 compared to 2014 due to a shift in geographical and vertical mix, as well as an increase in our buyer and seller incentives, which are accounted for as a reduction of revenue.

#### 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	
	2016	2015	As Reported	FX-Neutral	2015	2014	As Reported	FX-Neutral
StubHub transaction revenues	937	725	29 %	29 %	725	629	15 %	15 %
StubHub GMV	4,310	3,574	21 %	21 %	3,574	3,172	13 %	13 %
StubHub take rate	21.76%	20.29%	1.47%		20.29%	19.83%	0.46%	

The increase in StubHub net transaction revenues in 2016 compared to 2015 was primarily driven by an increase in Sports, Concerts and Theater transactions on our platform, as well as a higher StubHub transaction take rate. The increase in StubHub transaction take rate was primarily due to a change in mix of events and sellers on the StubHub platforms. The increase in StubHub net transaction revenue was greater than the increase in StubHub GMV due to the higher StubHub transaction take rate.

The increase in StubHub net transaction revenues in 2015 compared to 2014 was primarily driven by an increase in StubHub GMV and an increase in StubHub transaction take rate. The StubHub GMV increase was primarily driven by an increase in volume of ticket sales related to Sports and Concerts. The increase in StubHub net transaction revenue was greater than the increase in StubHub GMV due to a higher StubHub transaction take rate. The StubHub transaction take rate was higher in 2015 compared to 2014 primarily due to a change in mix of events and sellers on the StubHub platforms.

#### Marketing Services and Other Revenues

The following table presents marketing services and other (“MS&O”) revenues (in millions, except percentages):

	Year Ended December 31,		% Change		Year Ended December 31,		% Change	
	2016	2015	As Reported	FX-Neutral	2015	2014	As Reported	FX-Neutral
MS&O revenues:								
Marketplace	\$1,137	\$1,078	6 %	8 %	\$1,078	\$1,103	(2) %	4 %
Classifieds	791	703	13 %	15 %	703	716	(2) %	14 %
StubHub, Corporate and other	7	(17 )	**	**	(17 )	(9 )	**	**
Total MS&O revenues	\$1,935	\$1,764	10 %	12 %	\$1,764	\$1,810	(3) %	8 %

Percentage of net revenues 22 % 21 % 21 % 21 %

The increase in total MS&O revenues in 2016 compared to 2015 was primarily attributable to an increase in FX-Neutral Classifieds MS&O revenues and FX-Neutral Marketplace MS&O revenues, partially offset by an unfavorable impact from foreign currency movements relative to the U.S. dollar. The decrease in total MS&O revenues in 2015 compared to 2014 was primarily attributable to an unfavorable impact from foreign currency movements relative to the U.S. dollar, partially offset by increased FX-Neutral Classifieds revenue, and to a lesser extent, increased FX-Neutral revenue from Marketplace marketing services.

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### Marketplace MS&O Revenues

The increase in Marketplace MS&O revenues in 2016 compared to 2015 was primarily driven by increased fees earned for referral services and increased revenue from our revenue share programs, partially offset by an unfavorable impact from foreign currency movements relative to the U.S. dollar. The increase in fees earned for referral services primarily consisted of fees for customers acquired and incentives for the usage of PayPal Holdings, Inc. (“PayPal”) products on certain Marketplace platforms, which were not included in marketing services and other revenues prior to the distribution of 100% of the outstanding common stock of PayPal to our stockholders (the “Distribution”).

The decrease in Marketplace MS&O revenues in 2015 compared to 2014 was primarily due to an unfavorable impact from foreign currency movements relative to the U.S. dollar and decreased revenue in local currencies from advertising display on our international Marketplace platforms, partially offset by increased fees earned for referral services. The increase in fees earned for referral services primarily consisted of fees for customers acquired and incentives for the usage of PayPal products on certain Marketplace platforms, which were not included in marketing services and other revenues prior to the Distribution.

### Classifieds MS&O Revenues

The increase in Classifieds MS&O revenues in 2016 compared to 2015 was primarily driven by increased revenue from our Classifieds platforms in our developed markets of Germany, Canada and Australia, partially offset by an unfavorable impact from foreign currency movements relative to the U.S. dollar. The decrease in Classifieds MS&O revenues in 2015 compared to 2014 was primarily driven by an unfavorable impact from foreign currency movements relative to the U.S. dollar, partially offset by increased revenue from our Classifieds platforms in our developed markets of Germany, Canada and the UK.

### Cost of Net Revenues

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

	Year Ended December 31,					
	2016	% Change	2015	% Change	2014	
Cost of net revenues	\$2,007	13 %	\$1,771	6 %	\$1,663	
As a percentage of net revenues	22.4 %		20.6 %		18.9 %	

The increase in cost of net revenues in 2016 compared to 2015 was primarily due to our continued investment in site operations and data centers and an increase in transaction fees for payment services. The increase in cost of net revenues in 2015 compared to 2014 was primarily due to continued investment in our site operations and data centers and an increase in transaction fees for payment services, partially offset by a favorable impact due to foreign currency movements relative to the U.S. dollar. The increase in transaction fees for payment services primarily consisted of the impact of transaction fees for payment services provided by PayPal which were not included in cost of net revenues prior to the Distribution.

Cost of net revenues, net of \$4 million from hedging activities, was favorably impacted by \$16 million due to foreign currency movements relative to the U.S. dollar in 2016 compared to 2015. Cost of net revenues, net of \$24

million from hedging activities, was favorably impacted by \$80 million due to foreign currency movements relative to the U.S. dollar in 2015 compared to 2014.



## Operating Expenses

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

	Year Ended December 31,					
	2016	% Change	2015	% Change	2014	
Sales and marketing	\$2,368	4 %	\$2,267	(7 )%	\$2,442	
Percentage of net revenues	26	%	26	%	28	%
Product development	1,114	21 %	923	(6 )%	983	
Percentage of net revenues	12	%	11	%	11	%
General and administrative	900	(20 )%	1,122	26 %	889	
Percentage of net revenues	10	%	13	%	10	%
Provision for transaction losses	231	(15 )%	271	3 %	262	
Percentage of net revenues	3	%	3	%	3	%
Amortization of acquired intangible assets	34	(17 )%	41	(45 )%	75	

Operating expenses, net of \$3 million from hedging activities, were favorably impacted by \$66 million due to foreign currency movements relative to the U.S. dollar in 2016 compared to 2015. Operating expenses, net of \$47 million from hedging activities, were favorably impacted by \$194 million due to foreign currency movements relative to the U.S. dollar in 2015 compared to 2014.

### Sales and Marketing

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

The increase in sales and marketing expense in 2016 compared to 2015 was primarily due to an increase in marketing program costs (both online and offline programs) partially offset by a favorable impact from foreign currency movements relative to the U.S. dollar. The decrease in sales and marketing expense in 2015 compared to 2014 was primarily due to a favorable impact from foreign currency movements relative to the U.S. dollar, a decrease in marketing program costs due in part to a shift in certain buyer and seller incentives (for which associated expenses are recorded as a reduction in revenue instead of sales and marketing expense) and employee-related savings from our global workforce reduction.

### 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 of our platform architecture, migration of certain platforms, and seller tools. Our top technology priorities include structured data, multi-screen capabilities, improved seller tools and buyer experiences.

Capitalized internal use and platform development costs were \$137 million and \$136 million in 2016 and 2015, respectively, and are primarily reflected as a cost of net revenues when amortized in future periods.

The increase in product development expenses in 2016 compared to 2015 was primarily due to higher employee-related costs driven by increased headcount; and increased depreciation on equipment driven by capital expenditures as we continue to invest in our platform. The decrease in product development expenses in 2015 compared to 2014 was primarily due to a favorable impact from foreign currency movements and hedging relative to the U.S. dollar.

## 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 decrease in general and administrative expenses in 2016 compared to 2015 was primarily due to restructuring expenses from our global workforce reduction, costs related to the Distribution and expenses related to litigation proceedings in 2015 that did not recur in 2016. The reduction in these expenses were partially offset by an increase in corporate costs in 2016 due to a reduction in synergies that existed prior to the Distribution.

The increase general and administrative expenses in 2015 compared to 2014 was primarily due to restructuring costs related to our global workforce reduction, costs related to the Distribution, expenses related to craigslist, Inc. litigation proceedings and an increase in corporate costs due to a reduction in synergies that existed prior to the Distribution.

## Provision for Transaction Losses

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

The decrease in provision for transaction losses in 2016 compared to 2015 was primarily driven by lower customer protection program costs. The increase in provision for transaction losses in 2015 compared to 2014 was primarily driven by higher customer protection program costs, partially offset by a decrease in bad debt expense.

## 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, 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,				
	2016	% Change	2015	% Change	2014
Interest income	\$125	29 %	\$97	(22 )%	\$125
Interest expense	(225 )	56 %	(144 )	32 %	(109 )
Gains on investments	1,343	**	268	**	33
Other	83	**	(12 )	20 %	(10 )
Total interest and other, net	\$1,326	**	\$209	**	\$39

The increase in interest and other, net in 2016 compared to 2015 was primarily due to the \$1.3 billion pre-tax gain from the sale of our equity holdings of MercadoLibre, Inc., and our hedging strategy, partially offset by an increase in interest expense related to the issuance of senior notes during the first quarter of 2016. The increase in interest and other, net in 2015 compared to 2014 was primarily due to gains on sale of investments, partially offset by an increase

in interest expense due to the issuance of debt securities in 2014 and a decrease in interest income attributable to the lower overall balance of cash, short-term investments and long-term investments after the Distribution.

## Provision for Income Taxes

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

	Year Ended December 31,		
	2016	2015	2014
Provision for income taxes	\$(3,634)	\$459	\$3,380
Effective tax rate	(99.5 )%	19.1 %	134.4 %

Our effective tax rate was (99.5)% in 2016 compared to 19.1% in 2015. The decrease in our effective tax rate during 2016 compared to 2015 was primarily due to the recognition in 2016 of deferred tax assets of approximately \$4.6 billion as a result of the realignment of our legal structure and the associated tax agreements. This was partially off-set by the \$485 million tax effect on the \$1.3 billion gain on the sale of our equity holdings of MercadoLibre, Inc.

Our effective tax rate was 19% in 2015 compared to 134% in 2014. The decrease in our effective tax rate during 2015 compared to 2014 was due to the recognition in 2014 of deferred tax liabilities of approximately \$3.0 billion of U.S. income and applicable foreign withholding taxes on \$9.0 billion of undistributed foreign earnings of certain of our foreign subsidiaries for 2013 and prior years. This was partially offset by the tax effect of gains on sale of certain investments in 2015.

During the fourth quarter of 2016, we began the process of realigning our legal structure, subsequent to the distribution of PayPal Holdings, Inc., to better reflect how we manage and operate our platforms. We consider many factors in effecting this realignment, including foreign exchange exposures, long-term cash flows and cash needs of our platforms, capital allocation considerations and the associated tax effects. As a result of the initial stages of this realignment and the associated tax agreements, we have achieved a substantial step-up in the tax basis of the intangible assets in our foreign eBay platforms. We recognized a tax benefit of \$4.6 billion, which represents the income tax effect of the step-up in tax basis. In the future, we expect the noncash tax impacts of the realignment in our foreign eBay platforms will significantly increase our income tax provision.

The realignment is expected to extend into 2018 and primarily impact our international entities. In the first half of 2017, we may achieve a step-up in the tax basis of the intangible assets in our foreign Classifieds platforms. Accordingly, the noncash tax impacts of the realignment in our foreign Classifieds platforms will impact our tax provision in a manner similar to the impact from our foreign eBay platforms.

We benefit from tax rulings concluded in several different jurisdictions, most significantly Switzerland and Luxembourg. The cash tax benefit of these rulings totaled approximately \$307 million in 2016, \$319 million in 2015 and \$339 million in 2014. We expect the ongoing realignment of our legal structure will result in the termination, amendment or replacement of certain tax rulings. However, we expect to continue to benefit from tax rulings that lower our cash tax obligations in certain foreign jurisdictions. In the future, we expect these cash tax benefits to remain consistent, subject to the performance of our foreign platforms.

Our provision for income taxes differs 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 certain lower-tax 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 \$346 million in 2016, \$399 million in 2015 and \$432 million in 2014. 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 and Luxembourg. We expect to continue to benefit from lower tax rates due to our continued operations in foreign jurisdictions, in particular, in Switzerland. See "Note 15 - 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. For the year ended December 31, 2016 our US share of pretax income and net revenues was 41.9% and 43.1%, respectively. For the year ended December 31, 2015, our U.S. share of pretax income and net revenues was 16.5% and 42.2%, respectively. For the year ended December 31, 2014, our U.S. share of pretax income and net revenues was 20.3% and 40.1%, respectively. The difference in relative pretax income and net revenues attributable to the U.S., as compared to the rest of the world for both 2016 and 2015, was primarily related to larger stock-based

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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. In addition, the U.S. pretax income for 2016 includes a \$979 million gain on the sale of the U.S. portion of our equity holdings of MercadoLibre, Inc.

Our provision for income taxes is volatile and, in general, is adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates. Our provision for income taxes does not include provisions for U.S. income taxes and foreign withholding taxes associated with \$7.4 billion of undistributed earnings of certain foreign subsidiaries because we intend to reinvest those earnings indefinitely in our foreign subsidiaries. If these earnings were distributed into the U.S. in the form of dividends to eBay companies domiciled in the U.S. or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Additionally, please see the information in “Item 1A: Risk Factors” under the caption “We may have exposure to greater than anticipated tax liabilities.”

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

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

#### Non-GAAP Measure 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.

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, 2016			Year Ended December 31, 2015				
	As Reported	Exchange Rate Effect <sup>(1)</sup>	FX-Neutral <sup>(2)</sup>	As Reported	As Reported %	FX-Neutral % Change		
<b>GMV:</b>								
Marketplace	\$79,448	\$(2,229 )	\$ 81,677	\$78,099	2 %	5 %		
StubHub	4,310	(12 )	4,322	3,574	21 %	21 %		
Total GMV	\$83,758	\$(2,241 )	\$ 85,999	\$81,673	3 %	5 %		
<b>Net transaction revenues:</b>								
Marketplace	\$6,107	\$(170 )	\$ 6,277	\$6,103	— %	3 %		
StubHub	937	(2 )	939	725	29 %	29 %		
Total net transaction revenues	7,044	(172 )	7,216	6,828	3 %	6 %		
<b>Marketing services and other revenues:</b>								
Marketplace	1,137	(25 )	1,162	1,078	6 %	8 %		
Classifieds	791	(13 )	804	703	13 %	15 %		
StubHub, Corporate and other	7	—	7	(17 )	**	**		
Total marketing services and other revenues	1,935	(38 )	1,973	1,764	10 %	12 %		
Total net revenues	\$8,979	\$(210 )	\$ 9,189	\$8,592	5 %	7 %		

	Year Ended December 31, 2015			Year Ended December 31, 2014				
	As Reported	Exchange Rate Effect <sup>(1)</sup>	FX-Neutral <sup>(2)</sup>	As Reported	As Reported %	FX-Neutral % Change		
<b>GMV:</b>								
Marketplace	\$78,099	\$(5,554 )	\$ 83,653	\$79,581	(2 )%	5 %		
StubHub	3,574	(5 )	3,579	3,172	13 %	13 %		
Total GMV	\$81,673	\$(5,559 )	\$ 87,232	\$82,753	(1 )%	5 %		
<b>Net transaction revenues:</b>								
Marketplace	\$6,103	\$(407 )	\$ 6,51					