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EBAY INC  
Form 10-Q  
July 19, 2018

false--12-31Q220182018-06-3010-Q0001065088989549611YesLarge Accelerated FilerEBAY  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2018

**OR**

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

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

**Commission file number 001-37713**

**eBay Inc.**  
(Exact  
name of  
registrant as  
specified in  
its charter)



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**Delaware**

(State or other jurisdiction of incorporation or organization)

**77-0430924**

(I.R.S. Employer Identification Number)

**2025 Hamilton Avenue  
San Jose, California**

(Address of principal executive offices) (Zip Code)

**95125**

**(408) 376-7008**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

As of July 16, 2018, there were 989,549,611 shares of the registrant's common stock, \$0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

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

	June 30, 2018	December 31, 2017
	(In millions, except par value) (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,619	\$ 2,120
Short-term investments	2,388	3,743
Accounts receivable, net	745	696
Other current assets	1,432	1,185
Total current assets	6,184	7,744
Long-term investments	5,418	6,331
Property and equipment, net	1,576	1,597
Goodwill	5,199	4,773
Intangible assets, net	123	69
Deferred tax assets	5,052	5,199
Other assets	436	273
Total assets	\$ 23,988	\$ 25,986
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 3	\$ 781
Accounts payable	253	330
Accrued expenses and other current liabilities	2,117	2,134
Deferred revenue	151	137
Income taxes payable	84	177
Total current liabilities	2,608	3,559
Deferred tax liabilities	3,290	3,424
Long-term debt	9,201	9,234
Other liabilities	1,743	1,720
Total liabilities	16,842	17,937
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580 shares authorized; 989 and 1,029 shares outstanding	2	2
Additional paid-in capital	15,478	15,293
Treasury stock at cost, 682 and 632 shares	(23,892)	(21,892)
Retained earnings	14,977	13,929
Accumulated other comprehensive income	581	717
Total stockholders' equity	7,146	8,049
Total liabilities and stockholders' equity	\$ 23,988	\$ 25,986

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts) (Unaudited)			
Net revenues	\$2,640	\$2,419	\$5,220	\$4,722
Cost of net revenues	597	560	1,156	1,074
Gross profit	2,043	1,859	4,064	3,648
Operating expenses:				
Sales and marketing	838	727	1,594	1,375
Product development	352	313	686	591
General and administrative	368	267	638	512
Provision for transaction losses	66	63	138	125
Amortization of acquired intangible assets	13	9	23	18
Total operating expenses	1,637	1,379	3,079	2,621
Income from operations	406	480	985	1,027
Interest and other, net	301	(18)	269	(7)
Income before income taxes	707	462	1,254	1,020
Income tax benefit (provision)	(69)	(433)	(209)	44
Income from continuing operations	\$638	\$29	\$1,045	\$1,064
Income from discontinued operations, net of income taxes	4	—	4	—
Net income	\$642	\$29	\$1,049	\$1,064
Income per share - basic:				
Continuing operations	\$0.64	\$0.03	\$1.04	\$0.99
Discontinued operations	—	—	—	—
Net income per share - basic	\$0.64	\$0.03	\$1.04	\$0.99
Income per share - diluted:				
Continuing operations	\$0.64	\$0.03	\$1.03	\$0.97
Discontinued operations	—	—	—	—
Net income per share - diluted	\$0.64	\$0.03	\$1.03	\$0.97
Weighted-average shares:				
Basic	992	1,076	1,001	1,080
Diluted	1,004	1,091	1,016	1,097

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>(In millions)</b>			
	<b>(Unaudited)</b>			
Net income	\$642	\$29	\$1,049	\$1,064
Other comprehensive income, net of reclassification adjustments:				
Foreign currency translation gain (loss)	(325 )	345	(193 )	676
Unrealized gains (losses) on investments, net	(2 )	(29 )	(38 )	(49 )
Tax benefit (expense) on unrealized gains (losses) on investments, net	—	6	10	18
Unrealized gains (losses) on hedging activities, net	137	(64 )	108	(98 )
Tax benefit (expense) on unrealized gains (losses) on hedging activities, net	(29 )	14	(23 )	14
Other comprehensive income, net of tax	(219 )	272	(136 )	561
Comprehensive income	\$423	\$301	\$913	\$1,625

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

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(In millions)</b>	
	<b>(Unaudited)</b>	
Cash flows from operating activities:		
Net income	\$1,049	\$1,064
Income from discontinued operations, net of income taxes	(4	) —
Adjustments:		
Provision for transaction losses	138	125
Depreciation and amortization	349	331
Stock-based compensation	271	238
(Gain) Loss on investments, net	(260	) (28
Deferred income taxes	(17	) (122
Change in fair value of warrant	(106	) —
Changes in assets and liabilities, and other, net of acquisition effects	(553	) (327
Net cash provided by operating activities	867	1,281
Cash flows from investing activities:		
Purchases of property and equipment	(342	) (317
Purchases of investments	(10,365)	(7,603
Maturities and sales of investments	12,555	5,815
Acquisitions, net of cash acquired	(302	) (20
Other	1	1
Net cash provided by (used in) investing activities	1,547	(2,124
Cash flows from financing activities:		
Proceeds from issuance of common stock	67	62
Repurchases of common stock	(2,000	) (917
Tax withholdings related to net share settlements of restricted stock units and awards	(153	) (130
Proceeds from issuance of long-term debt, net	—	2,484
Repayment of debt	(750	) —
Other	(31	) 15
Net cash provided by (used in) financing activities	(2,867	) 1,514
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(51	) 151
Net increase (decrease) in cash, cash equivalents and restricted cash	(504	) 822
Cash, cash equivalents and restricted cash at beginning of period	2,140	1,835
Cash, cash equivalents and restricted cash at end of period	\$1,636	\$2,657
Supplemental cash flow disclosures:		
Cash paid for:		
Interest	\$162	\$131
Income taxes	\$454	\$163
Noncash investing activities:		
Relinquishment of equity method investment	\$266	\$—

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

**eBay Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***The Company***

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

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

***Use of Estimates***

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

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

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

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

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

***Significant Accounting Policies***

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

**eBay Inc.**

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

***Investments***

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

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

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

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

***Derivative Instruments***

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

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

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

***Revenue Recognition***



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

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

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

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

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

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

***Contract Balances***

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenue recognized prior to invoicing when we have satisfied our performance obligation and have the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon our assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers’ ability to pay. The allowance for doubtful accounts and authorized credits was \$100 million and \$102 million as of June 30, 2018 and December 31, 2017, respectively.

Deferred revenue consists of fees received related to unsatisfied performance obligations at the end of the period. Due to the generally short-term duration of contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized for the six month period ended June 30, 2018 that was included in the deferred revenue balance at the beginning of the period was \$90 million.

***Recently Adopted Accounting Pronouncements***

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

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

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

Further, certain incentives such as coupons and rewards provided to certain users from which we do not earn revenue within the context of the identified contract of \$90 million and \$176 million for the three and six months ended June 30, 2017, respectively, are recognized as sales and marketing expenses, which historically were recorded as a reduction of revenue.

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	As Reported	As Adjusted	As Reported	As Adjusted
Net revenues	\$2,328	\$2,419	\$4,545	\$4,722
Cost of net revenues	\$561	\$560	\$1,076	\$1,074
Sales and marketing	\$637	\$727	\$1,199	\$1,375
Net income (loss)	\$27	\$29	\$1,062	\$1,064
Net income (loss) per share - basic	\$0.03	\$0.03	\$0.98	\$0.99
Net income (loss) per share - diluted	\$0.02	\$0.03	\$0.97	\$0.97

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

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

In 2016, the FASB issued new guidance related to accounting for leases. The new guidance requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases

under previous guidance. Further in 2018, the FASB provided an optional transition practical expedient to not evaluate under the new guidance existing or expired land easements that were not previously accounted for as leases under the current guidance. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are evaluating the impact of adopting this new accounting guidance on our condensed consolidated financial statements.

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

**eBay Inc.**

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

those fiscal years, beginning after December 15, 2018 is permitted. We are evaluating the impact of adopting this new accounting guidance on our condensed consolidated financial statements.

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

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

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

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

## eBay Inc.

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

## Note 2 — Net Income Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Income from continuing operations	\$638	\$29	\$1,045	\$1,064
Income from discontinued operations, net of income taxes	4	—	4	—
Net income	\$642	\$29	\$1,049	\$1,064
Denominator:				
Weighted average shares of common stock - basic	992	1,076	1,001	1,080
Dilutive effect of equity incentive awards	12	15	15	17
Weighted average shares of common stock - diluted	1,004	1,091	1,016	1,097
Income per share - basic:				
Continuing operations	\$0.64	\$0.03	\$1.04	\$0.99
Discontinued operations	—	—	—	—
Net income per share - basic	\$0.64	\$0.03	\$1.04	\$0.99
Income per share - diluted:				
Continuing operations	\$0.64	\$0.03	\$1.03	\$0.97
Discontinued operations	—	—	—	—
Net income per share - diluted	\$0.64	\$0.03	\$1.03	\$0.97
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	15	1	13	16

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

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

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

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

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

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

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

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

	December 31, 2017	Goodwill Acquired	Adjustments	June 30, 2018
Goodwill	\$ 4,773	\$ 532	\$ (106 )	\$ 5,199

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

***Intangible Assets***

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

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



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Intangible assets:

Customer lists and user base	\$523	\$ (431	) \$ 92	5	\$458	\$ (430	) \$ 28	5
Marketing related	590	(577	) 13	5	607	(587	) 20	5
Developed technologies	279	(266	) 13	3	273	(258	) 15	3
All other	158	(153	) 5	4	156	(150	) 6	4
Total	\$1,550	\$ (1,427	) \$ 123		\$1,494	\$ (1,425	) \$ 69	

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

Amortization expense for intangible assets was \$18 million and \$16 million for the three months ended June 30, 2018 and 2017, respectively. Amortization expense for intangible assets was \$34 million and \$32 million for the six months ended June 30, 2018 and 2017, respectively.

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

Fiscal year:

Remaining 2018	\$31
2019	49
2020	34
2021	9
Thereafter	—
Total	\$123

**Note 5 — Segments**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net transaction revenues:				
Marketplace	\$1,837	\$1,679	\$3,629	\$3,288
StubHub	240	229	471	435
Total net transaction revenues	2,077	1,908	4,100	3,723
Marketing services and other revenues:				
Marketplace	298	283	608	566
Classifieds	259	219	505	418
StubHub, Corporate and other	6	9	7	15
Total marketing services and other revenues	563	511	1,120	999
Total net revenues	\$2,640	\$2,419	\$5,220	\$4,722

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues by geography:				
U.S.	\$1,055	\$1,005	\$2,129	\$1,995
United Kingdom	369	329	725	640
Germany	407	353	799	684
South Korea	304	269	587	514
Rest of world	505	463	980	889
Total net revenues	\$2,640	\$2,419	\$5,220	\$4,722

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

## eBay Inc.

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

## Note 6 — Investments

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

	June 30, 2018			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Restricted cash	\$ 17	\$ —	\$ —	\$ 17
Corporate debt securities	2,376	1	(6 )	2,371
	\$ 2,393	\$ 1	\$ (6 )	\$ 2,388
Long-term investments:				
Corporate debt securities	4,598	5	(53 )	4,550
	\$ 4,598	\$ 5	\$ (53 )	\$ 4,550

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

Investment securities in a continuous loss position for greater than 12 months had an estimated fair value of \$430 million and \$9 million of unrealized losses as of June 30, 2018 and an estimated fair value of \$360 million and an immaterial amount of unrealized losses as of December 31, 2017. Refer to “Note 14 - Accumulated Other Comprehensive Income” for amounts reclassified to earnings from unrealized gains and losses.

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

	June 30, 2018
One year or less (including restricted cash of \$17)	\$ 2,388
One year through two years	2,127
Two years through three years	1,478
Three years through four years	640
Four years through five years	305
	\$ 6,938

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

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

	June 30, 2018	December 31, 2017
Equity investments without readily determinable fair values	\$ 859	\$ 872
Equity investments under the equity method of accounting	9	13
Total equity investments	\$ 868	\$ 885

During the second quarter of 2018, we relinquished our existing equity method investment in Giosis as part of the exchange for the acquisition of Giosis' Japan business. The gain upon relinquishment of \$266 million was recorded in interest and other, net on our condensed consolidated statement of income. Refer to "Note 3 - Business Combinations" for further details on the acquisition. Changes in our equity investments without determinable fair values typically include foreign currency translation.

In May 2018, we announced our intent to sell our ownership interest in Flipkart. We expect to close the transaction in the second half of 2018, subject to regulatory approval.

**Note 7 — Derivative Instruments**

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

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

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

***Cash Flow Hedges***

For derivative instruments that are designated as cash flow hedges, the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income ("AOCI") and subsequently

reclassified into earnings in the same period the forecasted transaction affects earnings. Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Unrealized gains and losses in AOCI associated with such derivative instruments are immediately reclassified into earnings. As of June 30, 2018, we have estimated that approximately \$44 million of net derivative gain related to our cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

***Net Investment Hedges***

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

eBay Inc.

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

***Fair Value Hedges***

We have designated the interest rate swaps used to manage interest rate risk on our fixed rate notes issued in July 2014 and maturing in 2019, 2021 and 2024 as qualifying hedging instruments and are accounting for them as fair value hedges. These transactions are designated as fair value hedges for financial accounting purposes because they protect us against changes in the fair value of certain of our fixed rate borrowings due to benchmark interest rate movements. Changes in the fair values of these interest rate swap agreements are recognized in other assets or other liabilities with a corresponding increase or decrease in long-term debt. Each quarter we pay interest based on LIBOR plus a spread to the counterparty and on a semi-annual basis receive interest from the counterparty per the fixed rate of these senior notes. The net amount is recognized as interest expense in interest and other, net.

***Non-Designated Hedges***

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

***Warrant***

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

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

## eBay Inc.

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

**Fair Value of Derivative Contracts**

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

	Balance Sheet Location	June 30, 2018	December 31, 2017
<b>Derivative Assets:</b>			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	\$ 87	\$ 16
Foreign exchange contracts designated as net investment hedges	Other Current Assets	11	—
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	52	10
Warrant	Other Assets	150	—
Interest rate contracts designated as fair value hedges	Other Assets	—	2
Total derivative assets		\$ 300	\$ 28
<b>Derivative Liabilities:</b>			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	\$ —	\$ 18
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	45	11
Interest rate contracts designated as fair value hedges	Other Liabilities	37	—
Total derivative liabilities		\$ 82	\$ 29
Total fair value of derivative instruments		\$ 218	\$ (1 )

Under the master netting agreements with the respective counterparties to our derivative contracts, subject to applicable requirements, we are allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, we have elected to present the derivative assets and derivative liabilities on a gross basis on our condensed consolidated balance sheet. As of June 30, 2018, the potential effect of rights of set-off associated with the foreign exchange contracts would be an offset to both assets and liabilities by \$45 million, resulting in net derivative assets of \$105 million and net derivative liabilities of zero.

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

The following tables present the activity of derivative contracts that qualify for hedge accounting as of June 30, 2018 and December 31, 2017, and the impact of these derivative contracts on AOCI for the six months ended June 30, 2018 and 2017 (in millions):

	December 31, 2017	Amount of Gain (Loss) Recognized in Other Comprehensive Income	Amount of Gain (Loss) Reclassified From AOCI to Earnings	June 30, 2018
Foreign exchange contracts designated as cash flow hedges	\$ (57 )	\$ 59	\$ (49 )	\$ 51

  

	December 31, 2016	Amount of Gain (Loss) Recognized in Other Comprehensive Income	Amount of Gain (Loss) Reclassified From AOCI to Earnings	June 30, 2017



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Foreign exchange contracts designated as cash flow hedges \$ 54 \$ (63 ) \$ 35 \$ (44 )

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**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*****Effect of Derivative Contracts on Condensed Consolidated Statement of Income***

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	\$(21)	\$—	\$(49)	\$—
Foreign exchange contracts designated as cash flow hedges recognized in cost of net revenues and operating expenses	—	4	—	11
Foreign exchange contracts designated as cash flow hedges recognized in interest and other, net	—	11	—	24
Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net	4	(4)	2	(8)
Total gain (loss) recognized from foreign exchange derivative contracts in the condensed consolidated statement of income	\$(17)	\$11	\$(47)	\$27

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gain (loss) from interest rate contracts designated as fair value hedges recognized in interest and other, net	\$(9)	\$8	\$(39)	\$1
Gain (loss) from hedged items attributable to hedged risk recognized in interest and other, net	9	(8)	39	(1)
Total gain (loss) recognized from interest rate derivative contracts in the condensed consolidated statement of income	\$—	\$—	\$—	\$—

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gain attributable to changes in the fair value of warrant recognized in interest and other, net	\$106	\$—	—	\$—

**eBay Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*****Notional Amounts of Derivative Contracts***

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

	June 30, 2018	December 31, 2017
Foreign exchange contracts designated as cash flow hedges	\$ 1,936	\$ 1,990
Foreign exchange contracts designated as net investment hedges	210	—
Foreign exchange contracts not designated as hedging instruments	3,542	2,349
Interest rate contracts designated as fair value hedges	2,400	2,400
Total	\$ 8,088	\$ 6,739

***Credit Risk***

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

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

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

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 1,619	\$ 1,619	\$ —	\$ —
Short-term investments:				
Restricted cash	17	17	—	—
Corporate debt securities	2,371	—	2,371	—
Total short-term investments	2,388	17	2,371	—
Derivatives	300	—	150	150
Long-term investments:				
Corporate debt securities	4,550	—	4,550	—
Total long-term investments	4,550	—	4,550	—

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Total financial assets	\$8,857	\$ 1,636	\$ 7,071	\$ 150
Liabilities:				
Derivatives	\$82	\$ —	\$ 82	\$ —

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

	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents	\$ 2,120	\$ 2,120	\$ —
Short-term investments:			
Restricted cash	20	20	—
Corporate debt securities	3,723	—	3,723
Total short-term investments	3,743	20	3,723
Derivatives	28	—	28
Long-term investments:			
Corporate debt securities	5,446	—	5,446
Total long-term investments	5,446	—	5,446
Total financial assets	\$ 11,337	\$ 2,140	\$ 9,197
Liabilities:			
Derivatives	\$ 29	\$ —	\$ 29

Our financial assets and liabilities are valued using market prices on both active markets (Level 1), less active markets (Level 2) and little or no market activity (Level 3). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs. Level 3 instrument valuations typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. We did not have any transfers of financial instruments between valuation levels during the six months ended June 30, 2018.

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

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

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

	June 30, 2018
Opening balance as of January 1, 2018	\$ —
Recognition of warrant	44
Change in fair value	106

Closing balance as of June 30, 2018    \$ 150

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

**Note 9 — Debt**

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

	<b>Coupon Rate</b>	<b>As of June 30, 2018</b>	<b>Effective Interest Rate</b>	<b>As of December 31, 2017</b>	<b>Effective Interest Rate</b>
<b>Long-Term Debt</b>					
Floating Rate Notes:					
Senior notes due 2019	LIBOR plus 0.48%	\$ 400	2.838 %	\$ 400	1.955 %
Senior notes due 2023	LIBOR plus 0.87%	400	3.229 %	400	2.349 %
Fixed Rate Notes:					
Senior notes due 2018	2.500%	—		750	2.775 %
Senior notes due 2019	2.200%	1,150	2.346 %	1,150	2.346 %
Senior notes due 2020	3.250%	500	3.389 %	500	3.389 %
Senior notes due 2020	2.150%	500	2.344 %	500	2.344 %
Senior notes due 2021	2.875%	750	2.993 %	750	2.993 %
Senior notes due 2022	3.800%	750	3.989 %	750	3.989 %
Senior notes due 2022	2.600%	1,000	2.678 %	1,000	2.678 %
Senior notes due 2023	2.750%	750	2.866 %	750	2.866 %
Senior notes due 2024	3.450%	750	3.531 %	750	3.531 %
Senior notes due 2027	3.600%	850	3.689 %	850	3.689 %
Senior notes due 2042	4.000%	750	4.114 %	750	4.114 %
Senior notes due 2056	6.000%	750	6.547 %	750	6.547 %
Total senior notes		9,300		10,050	
Hedge accounting fair value adjustments		(37 )		2	
Unamortized discount and debt issuance costs		(62 )		(68 )	
Less: Current portion of long-term debt		—		(750 )	
Total long-term debt		9,201		9,234	
<b>Short-Term Debt</b>					
Current portion of long-term debt		—		750	
Other indebtedness		3		31	
Total short-term debt		3		781	
<b>Total Debt</b>		<b>\$ 9,204</b>		<b>\$ 10,015</b>	

**Senior Notes**

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

None of the floating rate notes are redeemable prior to maturity. On and after March 1, 2021, we may redeem some or all of the 6.000% fixed rate notes due 2056 at any time and from time to time prior to their maturity at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest. We may redeem some or all of the other fixed rate notes of each series at any

time and from time to time prior to their maturity, generally at a make-whole redemption price, plus accrued and unpaid interest.

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



**eBay Inc.**

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

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

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

The effective interest rates for our senior notes include the interest payable, the amortization of debt issuance costs and the amortization of any original issue discount on these senior notes. Interest on these senior notes is payable either quarterly or semiannually. Interest expense associated with these senior notes, including amortization of debt issuance costs, was approximately \$79 million and \$74 million during the three months ended June 30, 2018 and 2017, respectively, and \$160 million and \$142 million during the six months ended June 30, 2018 and 2017, respectively.

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

***Commercial Paper***

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

***Credit Agreement***

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

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

**Note 10 — Commitments and Contingencies**

***Off-Balance Sheet Arrangements***

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

We have a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals from the financial institution based upon our aggregate operating cash balances held within the same financial institution (“Aggregate Cash Deposits”). This arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or

**eBay Inc.**

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

income under the arrangement. As of June 30, 2018, we had a total of \$1.5 billion in cash withdrawals offsetting our \$1.5 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

***Litigation and Other Legal Matters***

**Overview**

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

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

**General Matters**

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

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

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business, including suits by our users (individually or as class actions) alleging, among other things, improper disclosure of our prices, rules or policies, that our practices, prices, rules, policies or customer/user agreements violate applicable law or that we have acted unfairly and/or not acted in conformity with such practices, prices, rules, policies or agreements. Further, the number and significance of these disputes and inquiries are increasing as the political and regulatory landscape changes and, as we have grown larger, our businesses have expanded in scope (both in terms of the range of products and services that we offer and our geographical operations) and our products and services have increased in complexity. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result

**eBay Inc.**

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

in costly litigation, damage awards (including statutory damages for certain causes of action in certain jurisdictions), injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.

***Indemnification Provisions***

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

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

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

**Note 11 — Stockholders' Equity**

***Stock Repurchase Program***

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



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

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

	Shares Repurchased (1)	Average Price per Share (2)	Value of Shares Repurchased	Remaining Amount Authorized
Balance as of January 1, 2018				\$ 1,651
Authorization of additional plan in January 2018				6,000
Repurchase of shares of common stock	50	\$ 40.05	\$ 2,000	(2,000 )
Balance as of June 30, 2018				\$ 5,651

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

(2) Excludes broker commissions.

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

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

	Units
Outstanding as of January 1, 2018	42
Awarded	17
Vested	(12 )
Forfeited	(3 )
Outstanding as of June 30, 2018	44

The weighted average grant date fair value for RSUs awarded during the six months ended June 30, 2018 was \$40.19 per share.

***Stock-Based Compensation Expense***

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of net revenues	\$16	\$15	\$29	\$26
Sales and marketing	31	28	56	49
Product development	58	50	103	86

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General and administrative	46	44	83	77
Total stock-based compensation expense	\$151	\$137	\$271	\$238
Capitalized in product development	\$4	\$3	\$7	\$6

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**eBay Inc.**

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

**Note 13 — Income Taxes**

We are subject to both direct and indirect taxation in the U.S. and various states and foreign jurisdictions. We are under examination by certain tax authorities for the 2008 to 2013 tax years. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these or other examinations. The material jurisdictions where we are subject to potential examination by tax authorities for tax years after 2007 include, among others, the U.S. (Federal and California), Germany, Korea, Israel, Switzerland, United Kingdom and Canada.

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

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

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

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

We computed the amount based on information available to us, including our expectation that existing foreign basis differences will affect the amount of U.S. minimum tax upon reversal; however, there is still uncertainty as to the application of the Act. As of June 30, 2018, we have not yet completed our analysis of the components of the tax computation, including a complete reconciliation of the book and tax bases in our foreign subsidiaries. As we complete our analysis of U.S. tax reform, we may make adjustments to the provisional amounts, which may materially impact our provision for income taxes from continuing operations in the period in which the adjustments are made. We expect to complete our analysis by the fourth quarter of 2018. No adjustments to the provisional amount recorded in the fourth quarter of 2017 have been made.

In 2018, certain foreign earnings will not be subject to U.S. federal income tax on a current basis as a result of differences between U.S. GAAP and U.S. tax treatment. Management intends to indefinitely reinvest

those earnings. The amount expected to be indefinitely reinvested in 2018 is between \$200 million and \$300 million. The related unrecognized deferred tax liability would be approximately 24% of the indefinitely reinvested earnings.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion invalidating the regulations relating to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision was issued by the Tax Court in December 2015. The IRS is appealing the decision and filed its arguments opposing the Tax Court decision in June 2016. Due to the uncertainty surrounding the status of the current regulations, questions related to the scope of potential benefits or obligations, and the risk of the Tax Court's decision being overturned upon appeal, we have not recorded any benefit or expense as of June 30, 2018. We will continue to monitor ongoing developments and potential impacts to our condensed consolidated financial statements.

## eBay Inc.

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

## Note 14 — Accumulated Other Comprehensive Income

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

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of March 31, 2018	\$ (86 )	\$ (51 )	\$ 880	\$ 57	\$ 800
Other comprehensive income (loss) before reclassifications	116	(2 )	(325 )	(24 )	(235 )
Less: Amount of gain (loss) reclassified from AOCI	(21 )	—	—	5	(16 )
Net current period other comprehensive income (loss)	137	(2 )	(325 )	(29 )	(219 )
Balance as of June 30, 2018	\$ 51	\$ (53 )	\$ 555	\$ 28	\$ 581

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of December 31, 2017	\$ (57 )	\$ (15 )	\$ 748	\$ 41	\$ 717
Other comprehensive income (loss) before reclassifications	59	(39 )	(193 )	(2 )	(175 )
Less: Amount of gain (loss) reclassified from AOCI	(49 )	(1 )	—	11	(39 )
Net current period other comprehensive income (loss)	108	(38 )	(193 )	(13 )	(136 )
Balance at June 30, 2018	\$ 51	\$ (53 )	\$ 555	\$ 28	\$ 581

	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
Balance as of March 31, 2017	\$ 20	\$ 31	\$ 101	\$ 13	\$ 165
Other comprehensive income (loss) before reclassifications	(49 )	(24 )	345	20	