

EBAY INC  
Form 10-Q  
July 21, 2017

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, 2017

OR

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

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

Commission file number 001-37713

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

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

2025 Hamilton Avenue	95125
San Jose, California	
(Address of principal executive offices) (Zip Code)	
(408) 376-7400	
(Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 17, 2017, there were 1,070,315,519 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.

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## PART I: FINANCIAL INFORMATION

## Item 1: Financial Statements

eBay Inc.

## CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2017	December 31, 2016
	(In millions, except par value) (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,636	\$ 1,816
Short-term investments	6,381	5,333
Accounts receivable, net	619	592
Other current assets	1,270	1,134
Total current assets	10,906	8,875
Long-term investments	4,754	3,969
Property and equipment, net	1,538	1,516
Goodwill	4,665	4,501
Intangible assets, net	92	102
Deferred tax assets	5,242	4,608
Other assets	286	276
Total assets	\$ 27,483	\$ 23,847
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 2,215	\$ 1,451
Accounts payable	284	283
Accrued expenses and other current liabilities	1,870	1,893
Deferred revenue	125	110
Income taxes payable	102	110
Total current liabilities	4,596	3,847
Deferred and other tax liabilities, net	2,098	1,888
Long-term debt	9,251	7,509
Other liabilities	64	64
Total liabilities	16,009	13,308
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580 shares authorized; 1,072 and 1,087 shares outstanding	2	2
Additional paid-in capital	15,077	14,907
Treasury stock at cost, 582 and 557 shares	(20,063 )	(19,205 )
Retained earnings	16,021	14,959
Accumulated other comprehensive income/(loss)	437	(124 )
Total stockholders' equity	11,474	10,539
Total liabilities and stockholders' equity	\$ 27,483	\$ 23,847

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, 2017		Six Months Ended June 30, 2017	
	2016		2016	
	(In millions, except per share amounts)			
	(Unaudited)			
Net revenues	\$2,328	\$2,230	\$4,545	\$4,367
Cost of net revenues	561	493	1,076	970
Gross profit	1,767	1,737	3,469	3,397
Operating expenses:				
Sales and marketing	637	622	1,199	1,160
Product development	313	295	591	534
General and administrative	267	218	512	427
Provision for transaction losses	63	64	125	116
Amortization of acquired intangible assets	9	7	18	15
Total operating expenses	1,289	1,206	2,445	2,252
Income from operations	478	531	1,024	1,145
Interest and other, net	(18)	(8)	(6)	(31)
Income before income taxes	460	523	1,018	1,114
Income tax benefit (provision)	(433)	(86)	44	(195)
Income from continuing operations	\$27	\$437	\$1,062	\$919
Loss from discontinued operations, net of income taxes	—	(2)	—	(2)
Net income	\$27	\$435	\$1,062	\$917
Income (loss) per share - basic:				
Continuing operations	\$0.03	\$0.38	\$0.98	\$0.80
Discontinued operations	—	—	—	—
Net income per share - basic	\$0.03	\$0.38	\$0.98	\$0.80
Income (loss) per share - diluted:				
Continuing operations	\$0.02	\$0.38	\$0.97	\$0.79
Discontinued operations	—	—	—	—
Net income per share - diluted	\$0.02	\$0.38	\$0.97	\$0.79
Weighted-average shares:				
Basic	1,076	1,144	1,080	1,151
Diluted	1,091	1,149	1,097	1,159

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

eBay Inc.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
	(Unaudited)			
Net income	\$27	\$435	\$1,062	\$917
Other comprehensive income, net of reclassification adjustments:				
Foreign currency translation gain (loss)	345	(87 )	676	67
Unrealized gains (losses) on investments, net	(29 )	281	(49 )	304
Tax benefit (expense) on unrealized gains (losses) on investments, net	6	(80 )	18	(101 )
Unrealized gains (losses) on hedging activities, net	(64 )	30	(98 )	33
Tax benefit (expense) on unrealized gains (losses) on hedging activities, net	14	—	14	—
Other comprehensive income, net of tax	272	144	561	303
Comprehensive income	\$299	\$579	\$1,623	\$1,220

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

eBay Inc.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30, 2017    2016 (In millions) (Unaudited)	
Cash flows from operating activities:		
Net income	\$1,062	\$917
Loss from discontinued operations, net of income taxes	—	2
Adjustments:		
Provision for transaction losses	125	116
Depreciation and amortization	331	334
Stock-based compensation	238	201
Deferred income taxes	(123 )	(62 )
Changes in assets and liabilities, and other, net of acquisition effects	(352 )	(103 )
Net cash provided by continuing operating activities	1,281	1,405
Net cash used in discontinued operating activities	—	(1 )
Net cash provided by operating activities	1,281	1,404
Cash flows from investing activities:		
Purchases of property and equipment	(317 )	(305 )
Purchases of investments	(7,603 )	(5,128 )
Maturities and sales of investments	5,815	3,519
Other	(21 )	(59 )
Net cash used in continuing investing activities	(2,126 )	(1,973 )
Net cash used in discontinued investing activities	—	—
Net cash used in investing activities	(2,126 )	(1,973 )
Cash flows from financing activities:		
Proceeds from issuance of common stock	62	52
Repurchases of common stock	(917 )	(1,501 )
Excess tax benefits from stock-based compensation	—	4
Tax withholdings related to net share settlements of restricted stock units and awards	(130 )	(77 )
Proceeds from issuance of long-term debt, net	2,484	2,216
Other	15	(9 )
Net cash provided by continuing financing activities	1,514	685
Net cash used in discontinued financing activities	—	—
Net cash provided by financing activities	1,514	685
Effect of exchange rate changes on cash and cash equivalents	151	53
Net increase in cash and cash equivalents	820	169
Cash and cash equivalents at beginning of period	1,816	1,832
Cash and cash equivalents at end of period	2,636	2,001
Less: Cash and cash equivalents of discontinued operations	—	—
Cash and cash equivalents of continuing operations at end of period	\$2,636	\$2,001
Supplemental cash flow disclosures:		
Cash paid for interest	\$131	\$91
Cash paid for income taxes	\$163	\$84

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, goodwill and the recoverability of intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

#### Principles of Consolidation and Basis of Presentation

The accompanying condensed financial statements are consolidated and include the financial statements of eBay Inc., our wholly and majority-owned subsidiaries and variable interest entities (“VIE”) where we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. Minority interests are recorded as a noncontrolling interest. A qualitative approach is applied to assess the consolidation requirement for VIEs. Investments in entities where we hold at least a 20% ownership interest and have the ability to exercise significant influence, but not control, over the investee are accounted for using the equity method of accounting. For such investments, our share of the investees’ results of operations is included in interest and other, net and our investment balance is included in long-term investments. Investments in entities where we hold less than a 20% ownership interest are generally accounted for using the cost method of accounting, and our share of the investees’ results of operations is included in our condensed consolidated statement of income to the extent dividends are received.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. 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.



Recently Adopted Accounting Pronouncements

In 2016, the FASB issued new guidance to revise certain aspects of stock-based compensation guidance which includes income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. We adopted the new standard in the first quarter of 2017. Adoption of this standard did not have a material impact on our consolidated financial statements.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recent Accounting Pronouncements Not Yet Adopted

In 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. 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. While we continue to assess all potential impacts of the standard, we currently identified one performance obligation related to the core service offered to sellers in 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 resulting, in some cases, in a change in the timing of recognition from current guidance. We do not anticipate that the principal versus agent considerations under ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) will materially change how we present revenue. Further, we believe certain incentives such as coupons and rewards provided to our users could potentially be recognized as an expense, which we generally record as a reduction of revenue under current guidance. The standard is required to be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We continue to evaluate the transition method upon adoption. The Company will adopt the new revenue standards in its first quarter of 2018.

In 2016, the FASB issued new guidance related to accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

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

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

In 2016, the FASB issued new guidance that clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent

consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. Additionally, the FASB issued new guidance to include restricted cash with cash and cash equivalents when reconciling the beginning-of-the-period and end-of-the-period total amounts shown on the statement of cash flows. The new standards are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. While we continue to assess the potential impact of this standard, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In 2016, the FASB issued new guidance that requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This removes the exception to postpone recognition until the asset has been sold to an outside party. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. It is required to be applied on a modified retrospective basis through a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In 2017, the FASB issued new guidance that narrows the application of when an integrated set of assets and activities is considered a business and provides a framework to assist entities in evaluating whether both an input and a substantive process are present to be considered a business. It is expected that the new guidance will reduce the number of transactions that would need to be further evaluated and accounted for as a business. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In 2017, the FASB issued new guidance to simplify the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure 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. While we continue to assess the potential impact of this standard, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In 2017, the FASB issued new guidance to clarify the scope and application of the sale or transfer of nonfinancial assets to noncustomers, including partial sales and also defines what constitutes an "in substance nonfinancial asset" which can include financial assets. The new guidance eliminates several accounting differences between transactions involving assets and transactions involving businesses. Further, the guidance aligns the accounting for derecognition of a nonfinancial asset with that of a business. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

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

In 2017, the FASB issued new guidance to amend the scope of modification accounting for share-based payment arrangements. The amendments in the update provide guidance on types of changes to the terms or conditions of share-based payment awards would be required to apply modification accounting under ASC 718,

Compensation-Stock Compensation. The amendments are effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

eBay Inc.

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

## Note 2 — Net Income (loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and equity incentive awards is reflected in diluted net income (loss) per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive common shares. The following table sets forth the computation of basic and diluted net income (loss) per share for the three and six months ended June 30, 2017 and 2016 (in millions, except per share amounts):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Numerator:				
Income from continuing operations	\$27	\$437	\$1,062	\$919
Loss from discontinued operations, net of income taxes	—	(2)	—	(2)
Net income	\$27	\$435	\$1,062	\$917
Denominator:				
Weighted average shares of common stock - basic	1,076	1,144	1,080	1,151
Dilutive effect of equity incentive awards	15	5	17	8
Weighted average shares of common stock - diluted	1,091	1,149	1,097	1,159
Income (loss) per share - basic:				
Continuing operations	\$0.03	\$0.38	\$0.98	\$0.80
Discontinued operations	—	—	—	—
Net income per share - basic	\$0.03	\$0.38	\$0.98	\$0.80
Income (loss) per share - diluted:				
Continuing operations	\$0.02	\$0.38	\$0.97	\$0.79
Discontinued operations	—	—	—	—
Net income per share - diluted	\$0.02	\$0.38	\$0.97	\$0.79
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	1	15	16	14

eBay Inc.

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

## Note 3 — Discontinued Operations

## PayPal and Enterprise

In 2015, we separated from PayPal through the distribution of 100% of the outstanding common stock of PayPal Holdings, Inc. ("PayPal") to our stockholders (the "Distribution"). Subsequent to the Distribution, we classified the results of PayPal as discontinued operations in our consolidated statement of income for all periods presented. In 2015, we also sold the businesses underlying our former Enterprise segment ("Enterprise"). Subsequent to the sale of Enterprise, we classified the results of Enterprise as discontinued operations in our condensed consolidated statement of income for all periods presented.

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net revenues	\$—	\$—
Cost of net revenues	—	—
Gross profit	—	—
Operating expenses:		
Sales and marketing	—	—
Product development	—	—
General and administrative	—4	—2
Provision for transaction and loan losses	—	—
Amortization of acquired intangible assets	—	—
Goodwill impairment	—	—
Total operating expenses	—4	—2
Loss from operations of discontinued operations	—(4)	—(2)
Interest and other, net	—	—
Loss from discontinued operations before income taxes	—(4)	—(2)
Income tax benefit	—2	—
Loss from discontinued operations, net of income taxes	\$—(2)	\$—(2)

## Note 4 — Goodwill and Intangible Assets

## Goodwill

The following table presents goodwill activities during the six months ended June 30, 2017 (in millions):

December 31, 2016	Goodwill Acquired	Adjustments	June 30, 2017
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