

EBAY INC
Form 10-Q
April 29, 2011

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 March 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number 000-24821

eBay Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0430924
(I.R.S. Employer
Identification Number)

2145 Hamilton Avenue
San Jose, California
(Address of principal executive offices)
(408) 376-7400

95125
(Zip Code)

(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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 April 25, 2011, there were 1,297,898,817 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

	December 31, 2010	March 31, 2011
	(In thousands, except par value amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$5,577,411	\$5,464,582
Short-term investments	1,045,403	1,300,026
Accounts receivable, net	454,366	447,810
Loans and interest receivable, net	956,189	952,615
Funds receivable and customer accounts	2,550,731	2,746,079
Other current assets	481,238	603,716
Total current assets	11,065,338	11,514,828
Long-term investments	2,492,012	2,715,363
Property and equipment, net	1,523,333	1,547,943
Goodwill	6,193,163	6,445,103
Intangible assets, net	540,711	582,372
Other assets	189,205	199,251
Total assets	\$22,003,762	\$23,004,860
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term debt	\$300,000	\$300,000
Accounts payable	184,963	152,023
Funds payable and amounts due to customers	2,550,731	2,746,079
Accrued expenses and other current liabilities	1,343,888	1,424,343
Deferred revenue	96,464	101,689
Income taxes payable	40,468	39,415
Total current liabilities	4,516,514	4,763,549
Deferred and other tax liabilities, net	645,457	752,597
Long term debt	1,494,227	1,494,482
Other liabilities	45,385	49,819
Total liabilities	6,701,583	7,060,447
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580,000 shares authorized; 1,297,710 and 1,297,655 shares outstanding	1,513	1,524
Additional paid-in capital	10,480,709	10,616,354
Treasury stock at cost, 215,082 and 226,087 shares	(6,091,435) (6,447,978
Retained earnings	10,160,078	10,635,943
Accumulated other comprehensive income	751,314	1,138,570
Total stockholders' equity	15,302,179	15,944,413
Total liabilities and stockholders' equity	\$22,003,762	\$23,004,860

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended March 31,	
	2010	2011
	(In thousands, except per share amounts)	
	(Unaudited)	
Net revenues	\$2,196,057	\$2,545,609
Cost of net revenues	606,555	728,978
Gross profit	1,589,502	1,816,631
Operating expenses:		
Sales and marketing	446,161	532,679
Product development	210,139	274,782
General and administrative	276,743	293,478
Provision for transaction and loan losses	106,029	107,091
Amortization of acquired intangible assets	53,252	44,096
Restructuring	8,569	(149
Total operating expenses	1,100,893	1,251,977
Income from operations	488,609	564,654
Interest and other income (expense), net	6,046	3,692
Income before income taxes	494,655	568,346
Provision for income taxes	(97,002) (92,481
Net income	\$397,653	\$475,865
Net income per share:		
Basic	\$0.31	\$0.37
Diluted	\$0.30	\$0.36
Weighted average shares:		
Basic	1,301,248	1,297,278
Diluted	1,326,021	1,320,151

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,		
	2010	2011	
	(In thousands)		
	(Unaudited)		
Net income	\$397,653	\$475,865	
Other comprehensive income (loss):			
Foreign currency translation	(154,715) 354,021	
Unrealized gains (losses) on investments, net	(27,887) 121,874	
Unrealized gains (losses) on hedging activities	28,123	(43,537)
Tax benefit (provision) on above items	10,875	(45,102)
Net change in accumulated other comprehensive income (loss)	(143,604) 387,256	
Comprehensive income (loss)	\$254,049	\$863,121	

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended March 31,	
	2010	2011
	(In thousands)	
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$397,653	\$475,865
Adjustments:		
Provision for transaction and loan losses	106,029	107,091
Depreciation and amortization	188,022	193,089
Stock-based compensation	102,069	118,857
Changes in assets and liabilities, net of acquisition effects	(375,511)	(195,292)
Net cash provided by operating activities	418,262	699,610
Cash flows from investing activities:		
Purchases of property and equipment, net	(152,256)	(148,568)
Changes in principal loans receivable, net	15,650	(3,816)
Purchases of investments	(944,393)	(484,951)
Maturities and sales of investments	259,446	230,358
Acquisitions, net of cash acquired	—	(190,537)
Repayment of Skype note receivable	125,000	—
Other	(4,416)	941
Net cash used in investing activities	(700,969)	(596,573)
Cash flows from financing activities:		
Proceeds from issuance of common stock	42,117	72,742
Repurchases of common stock	—	(356,543)
Excess tax benefits from stock-based compensation	20,993	53,905
Tax withholdings related to net share settlements of restricted stock awards and units	(70,500)	(108,696)
Funds receivable and customer accounts	(157,215)	(195,348)
Funds payable and amounts due to customers	157,215	195,348
Net cash used in financing activities	(7,390)	(338,592)
Effect of exchange rate changes on cash and cash equivalents	(116,718)	122,726
Net decrease in cash and cash equivalents	(406,815)	(112,829)
Cash and cash equivalents at beginning of period	3,999,818	5,577,411
Cash and cash equivalents at end of period	\$3,593,003	\$5,464,582
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$311,442	\$23,655

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. (“eBay”) was incorporated in California in May 1996, and reincorporated in Delaware in April 1998. eBay's purpose is to pioneer new communities around the world, built on commerce, sustained by trust and inspired by opportunity. eBay brings together millions of buyers and sellers every day on a local, national and international basis through an array of websites. eBay provides online marketplaces for the sale of goods and services as well as other online commerce, or ecommerce, platforms and online payment services to a diverse community of individuals and businesses.

We currently have two business segments: Marketplaces and Payments. Our Marketplaces segment provides the infrastructure to enable global online commerce on a variety of platforms, including the eBay.com platform and its localized counterparts and our other online platforms, such as our online classifieds businesses (including our apartment listing service platform, Rent.com), our secondary tickets marketplace (StubHub), our online shopping comparison website (Shopping.com), and our fixed price media marketplace (Half.com). Our Payments segment is comprised of our online payment solutions PayPal and Bill Me Later.

When we refer to “we,” “our,” “us” or “eBay” in this document, we mean the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of our consolidated subsidiaries.

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 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 and loan losses, legal contingencies, income taxes, revenue recognition, stock-based compensation and the recoverability of goodwill and 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. and our majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. We have evaluated all subsequent events through the date the financial statements were issued.

The condensed consolidated financial statements include 100% of the assets and liabilities of our majority-owned subsidiaries and the ownership interests of minority investors are recorded as a noncontrolling interest. Investments in private entities where we hold 20% or more but less than a 50% ownership interest and exercise significant influence are accounted for using the equity method of accounting, and our share of the investees' results of operations is included in interest and other income (expense), net. Investments in private entities where we hold less than a 20% ownership interest and where we do not have the ability to significantly influence the operations of the investee are accounted for using the cost method of accounting, where our share of the investees' results of operations is not

included in our condensed consolidated statement of income, except to the extent of earnings distributions actually received from the investee. Our investment balance in private entities is included in long-term investments.

Note 2 — Net Income Per Share

Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income 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 restricted stock is reflected in diluted earnings per share by

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

application of the treasury stock method. The calculation of diluted net income per share excludes all anti-dilutive shares. The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Three Months Ended March 31,	
	2010	2011
	(In thousands, except per share amounts)	
Numerator:		
Net income	\$397,653	\$475,865
Denominator:		
Weighted average common shares - basic	1,301,248	1,297,278
Dilutive effect of equity incentive plans	24,773	22,873
Weighted average common shares - diluted	1,326,021	1,320,151
Net income per share:		
Basic	\$0.31	\$0.37
Diluted	\$0.30	\$0.36
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	31,039	17,873

Note 3 - Business Combinations:

During the three months ended March 31, 2011, we completed the acquisition of brands4friends, Germany's largest online shopping club for fashion and lifestyle, for aggregate purchase consideration of approximately \$193.2 million, consisting primarily of cash. This company is included in our Marketplaces segment. Allocation of the purchase consideration resulted in net tangible liabilities of \$33.1 million, purchased intangible assets of \$76.1 million and goodwill of \$150.2 million. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available. The consolidated financial statements include the operating results of brands4friends from the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to our financial results.

Additionally, on March 28, 2011, we announced our agreement to acquire GSI Commerce, Inc. ("GSI"), a leading provider of ecommerce and interactive marketing services, for \$29.25 a share, or total consideration of approximately \$2.4 billion. This acquisition will be financed with cash and debt and is expected to close in the third quarter of 2011. As part of the acquisition, we plan to divest 100 percent of GSI's licensed sports merchandise business and 70 percent of GSI's ShopRunner and Rue La La businesses. These assets will be sold to a newly formed holding company, which will be led by GSI founder and CEO Michael Rubin, funded in part by a loan receivable totaling \$467.0 million and bearing interest at an annual rate equal to 3-month LIBOR plus 1.10%. The acquisition is subject to customary closing conditions, including the receipt and timing of regulatory approval for the transaction and the approval of GSI's stockholders.

Note 4 — Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and adjustments to those balances for each of our reportable segments during the three months ended March 31, 2011:

	December 31, 2010 (In thousands)	Goodwill Acquired	Adjustments	March 31, 2011
Reportable segments:				
Marketplaces	\$4,071,772	\$ 150,239	\$ 102,037	\$4,324,048
Payments	2,148,752	—	(337)	2,148,415
	\$6,220,524	\$ 150,239	\$ 101,700	\$6,472,463

Investments accounted for under the equity method of accounting are classified on our balance sheet as long-term investments. Such investment balances include any related goodwill. As of December 31, 2010 and March 31, 2011, the goodwill related to our equity investments, included above, was approximately \$27.4 million.

The adjustments to goodwill during the three months ended March 31, 2011 were due primarily to foreign currency translation.

Intangible Assets

The components of identifiable intangible assets are as follows:

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eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

	December 31, 2010				March 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
	(In thousands, except years)							
Intangible assets:								
Customer lists and user base	\$831,806	\$ (625,126)	\$206,680	6	\$879,488	\$ (654,275)	\$225,213	6
Trademarks and trade names	632,899	(381,456)	251,443	5	690,974	(411,277)	279,697	5
Developed technologies	231,312	(192,421)	38,891	3	236,209	(202,817)	33,392	3
All other	156,306	(112,609)	43,697					