

EBAY INC
Form 10-K
January 31, 2012

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

Form 10-K

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

For the fiscal year ended December 31, 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 77-0430924
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

2145 Hamilton Avenue 95125
San Jose, California
(Address of principal (Zip Code)
executive offices)

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:
Title of each class Name of exchange on which registered
Common stock The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:
None

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

Yes No

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated

by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$36,927,714,233 based on the closing sale price as reported on The Nasdaq Global Select Market.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding as of January 23, 2012
Common Stock, \$0.001 par value per share	1,286,914,976 shares

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the registrant's Annual Meeting of Stockholders to be held on or about April 26, 2012.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in “Item 1A: Risk Factors” of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission, or the SEC. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

ITEM 1: BUSINESS

eBay Inc. was formed as a sole proprietorship in September 1995 and was incorporated in California in May 1996. In April 1998, we reincorporated in Delaware, and in September 1998, we completed the initial public offering of our common stock. Our principal executive offices are located at 2145 Hamilton Avenue, San Jose, California 95125, and our telephone number is (408) 376-7400. When we refer to “we,” “our,” “us” or “eBay” in this Annual Report on Form 10-K, we mean the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of its consolidated subsidiaries. When we refer to “eBay.com,” we mean the online marketplace located at www.ebay.com and its localized counterparts. When we refer to “PayPal,” we mean the online payments platform located at www.paypal.com and its localized counterparts. When we refer to “GSI,” we mean the ecommerce and interactive marketing services provided by GSI Commerce, which we purchased in June 2011. When we refer to “Skype,” we mean the Internet communications offerings provided by Skype Technologies S.A., which we sold in November 2009. As part of the sale, we maintained a 30 percent equity interest in the buyer of Skype, which we sold to Microsoft Corp. in October 2011.

We are a global commerce platform and payments leader. We enable commerce through three reportable segments: Marketplaces, Payments and GSI. These segments provide online platform, services and tools to help individuals and small, medium and large merchants around the globe establish online and mobile commerce and payments. In addition, through an initiative we refer to as X.commerce, we have created an open source platform that provides software developers and merchants access to our applications programming interfaces, or APIs, to develop software and solutions for commerce. As of December 31, 2011, we had more than 100 million active users transacting on our sites, millions of merchants using one or more of our platforms, and a developer community with more than 800,000 members using our APIs. We operate a vibrant global marketplace designed to bridge online, mobile and offline shopping and enable consumers to find what they want, when they want it. See the definition of “active users” in our Marketplaces and Payments discussions below.

For financial information about our reportable segments as well as the geographic areas where we conduct business, please see “Note 6 – Segments” to the consolidated financial statements included in this report. Additionally, please see the information in “Item 1A: Risk Factors” under the caption “There are many risks associated with our international operations,” which describes risks associated with the foreign operations of our reportable segments.

Marketplaces

Marketplaces brings buyers and sellers together through fully automated and easy-to-use online websites and mobile applications that are generally available throughout the world at any time, including through localized eBay.com sites in many countries. We had approximately 100.4 million active users at the end of 2011, compared to approximately

94.5 million at the end of 2010. We define an active user as any user who bid on, bought or listed an item on any of our eBay Marketplaces trading platforms, excluding users of Half.com, StubHub, and our Korean subsidiaries, during the preceding 12-month period. Users may register more than once, and as a result may have more than one account. Our Marketplaces segment includes our core ecommerce platform eBay.com, our vertical shopping sites such as StubHub, Fashion, Motors and Half.com, our classifieds websites such as Marktplaats.nl and mobile.de, and advertising

services. Additionally, Marketplaces has acquired technologies to help enable new commerce opportunities, including RedLaser to facilitate mobile commerce, Milo to enable search for goods at local retailers and Hunch to improve search and merchandising based on customers' needs and tastes. These acquisitions are intended to deliver new services to merchants and consumers by utilizing innovative technology and improved experiences across multiple channels of commerce.

Our Marketplaces platforms offer the following features:

We provide a variety of access points for consumers to shop virtually anytime, anywhere. eBay's Marketplaces platforms are accessible from computers with Internet access and mobile devices. We offer downloadable, easy to use mobile applications for the iPhone, the iPad and Android devices for eBay.com and some of our other websites and vertical shopping experiences, including StubHub, Fashion, Motors and Half.com. We also maintain a mobile version of our eBay.com website for use with other Internet-enabled phones and devices and continue to develop our mobile applications on an ongoing basis. As of December 31, 2011 our mobile applications had been downloaded more than 65 million times and, in 2011, approximately \$5 billion was transacted across all of our mobile applications, compared to nearly \$2 billion in 2010.

We offer a number of buying and selling formats, including fixed price and auction

Sellers can choose to list their products and services through fixed price listings on eBay.com, our core Marketplaces platform, and our classifieds websites or through an auction-based format on eBay.com. Our fixed price format allows buyers and sellers to close transactions at a pre-determined price set by the seller, but also allows sellers to signal that they would be willing to close the transaction at a lower price through the Best Offer feature. Our auction-style format allows a seller to select a minimum price for opening bids. Additional options and features applicable to auction listings include the ability to set a Reserve Price and Buy It Now feature. The duration of auctions typically ranges from one day to 10 days. In 2011, our fixed-price listing format continued to increase in popularity on eBay.com, accounting for approximately 63% of our gross merchandise volume, or GMV, with our auction-style format accounting for the remaining approximately 37% of GMV. We define GMV as the total value of all successfully closed items between users on eBay Marketplaces trading platforms during the relevant period, regardless of whether the buyer and seller actually consummated the transaction (excluding eBay's classifieds websites and Shopping.com). In addition, our eBay Stores format enables sellers to exhibit all of their listings in a single place on one of our eBay Marketplaces platforms and to describe their respective businesses through customized pages. eBay Stores also provides sellers with tools to build, manage, promote and track their businesses.

Our classified websites are available in over 1,000 cities around the world and are primarily designed to help people trade at a local level. Our classifieds websites include Den Blå Avis, BilBasen, eBay Classifieds (including eBay Anuncios, eBay Kleinanzeigen and eBay Annunci), Gumtree, Kijiji, LoQuo, Marktplaats.nl, mobile.de, Alamaula and Rent.com. In addition, we have a non-controlling equity investment in craigslist, Inc., which operates the craigslist classifieds websites.

We offer a variety of specialized vertical formats

We continue to customize our buying and selling experiences to make it easier for users to list, find and buy items by offering formats dedicated to specific products or categories. On our core eBay.com websites, we have built specialized experiences for certain vertical formats, such as Fashion, Motors (vehicles, parts and accessories), and Electronics. Our Fashion application for mobile devices comes enabled with social media and email sharing functions. In our Electronics vertical, we also offer catalogs and product-based experiences to help users list and find items more easily.

StubHub is a leading ticket marketplace, enabling fans to buy and sell tickets to a large selection of sports, concert, theater and other live entertainment events. StubHub's online marketplace, dedicated solely to tickets, provides fans the ability to buy and sell their tickets in a safe, convenient and reliable environment. StubHub's partners include approximately 60 teams in the NBA, NHL, MLB and NCAA. In December 2011, StubHub launched its first international website in the United Kingdom.

We are building services to help sellers offer goods locally, both online or through a mobile device, providing them with another channel for product distribution

With the acquisitions of RedLaser and Milo, we are helping merchants offer their local inventory online or through mobile devices and helping consumers find what they are looking for at local stores. RedLaser allows consumers to scan bar codes in order to find the goods they are looking for in a variety of locations, both online and offline, while Milo enables local inventory to be viewed online or on a mobile device. We plan to expand the functionality and use of these tools and services to

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more merchants in 2012.

Our inventory offers variety and choice.

With over 300 million listings available on all of our Marketplaces websites as of December 31, 2011, we offer buyers a broad range of listings across a wide number of categories. We have new, refurbished and used products, common and rare items, and branded and unbranded products. Our listings include products and services from more than 50,000 categories. As of December 31, 2011, there were more than 80 branded Outlet stores on eBay.com offering customers new items at great values.

We maintain high standards for trust and safety and customer service.

We have developed a number of features on our platforms in the areas of trust and safety (including our Feedback Forum, SafeHarbor Program, Verified Rights Owner Program and eBay Buyer Protection), customer support and value-added tools and services, as well as loyalty programs (for both buyers and sellers). These features are designed to make users more comfortable dealing with unknown trading partners and completing commercial transactions on the Internet or through mobile devices, as well as rewarding our top buyers and sellers for their loyalty.

eBay Buyer Protection covers items purchased on our sites in the U.S., the U.K. and Germany through an eligible payment method and protects most buyers with respect to items that are not received or not as described in the listing. Some purchases, including most vehicles, are not covered. eBay Buyer Protection provides coverage for the purchase price of the item, plus original shipping costs, for a limited time period from the date of the transaction, and includes a new, streamlined online interface to help buyers and sellers navigate their way through the process.

Payments

Our payments segment provides efficient payment and settlement capabilities for consumers and merchants on and off eBay websites and other merchant websites. We have three primary payment brands: PayPal, which enables individuals and businesses to securely, easily and quickly send and receive payments online and through a broad range of mobile devices in approximately 190 markets worldwide; Bill Me Later, which enables U.S. merchants to offer, and U.S. consumers to obtain, credit at the point of sale for ecommerce and mobile transactions through Bill Me Later's relationship with a chartered financial institution; and Zong, acquired in August 2011, which enables users with a mobile phone to purchase digital goods and have the transactions charged to their phone bill. We also recently acquired BillsAFE, a provider of payment services for online merchants in Germany who offer their customers the ability to pay for purchases upon receipt of an invoice.

Our payment networks are designed to be simple, safe and secure and are built upon the existing global financial infrastructure to create global, real-time payment solutions. PayPal connects more than 15,000 financial institutions around the world, and buyers can typically use their local payment method of choice, no matter where the seller is located. Users of our PayPal payments solutions can engage in cross-border shopping, which may help merchants to increase sales volume by allowing them to sell to a global base of buyers.

We had approximately 106 million active registered accounts in approximately 190 markets as of December 31, 2011. We define active registered accounts as all registered accounts that successfully sent or received at least one payment or payment reversal through the PayPal system or Bill Me Later accounts that are currently able to transact and that have received a statement within the last 12 months.

Our PayPal payment processing solution is available both online and on mobile.

PayPal originally started as a payment solution for online transactions between consumers and merchants. With the advent of smartphones and tablet computers, PayPal is becoming a popular form of payment for online and offline goods and services on mobile devices as well. In 2011, PayPal's net total payment volume, or TPV, for transactions using mobile devices reached \$4 billion, up from approximately \$750 million in 2010. PayPal's mobile checkout solutions offer merchants a convenient and easy way to accept payments through a mobile-optimized user experience. Consumers with a PayPal account have the flexibility to pay without entering a credit card number or a billing and shipping address on their devices. PayPal's mobile products are designed to deliver an end-to-end mobile shopping experience in a safe and secure environment.

Our PayPal payment solution offers merchants an all-in-one payment processing experience that is generally less expensive than payment card alternatives.

PayPal offers online and mobile-enabled merchants an all-in-one payment processing solution that we believe is generally less expensive per transaction than most credit card and debit card merchant accounts. A merchant can typically open a PayPal account and begin accepting payments through PayPal within a few minutes. Most merchants are approved instantly for a PayPal account and do not need to provide a personal guarantee, acquire specialized hardware or software, prepare an application or contact a payment gateway. PayPal can reduce or eliminate the need for merchants to receive and store sensitive customer financial information. Furthermore, PayPal charges merchants no setup fees and few or no recurring monthly fees, and we believe that PayPal charges lower transaction fees than many U.S. merchant accounts.

We offer consumers choice by providing a variety of funding and withdrawal mechanisms.

Buyers can fund their PayPal accounts and payments using PayPal in a variety of ways, including by credit card, debit card, electronic funds transfers from their bank account and through a PayPal balance if the buyer has previously received payments or chosen to pre-fund a balance. We also provide a credit offering through the Bill Me Later service, which allows qualifying U.S. buyers to obtain a revolving line of credit at the point of sale from a third-party chartered financial institution, WebBank. Bill Me Later is not a chartered financial institution nor is it licensed to make loans in any state. Accordingly, Bill Me Later must rely on a bank or licensed lender to issue the Bill Me Later credit products and extend credit to customers. U.S. buyers may also be offered an opportunity to defer payments for purchases made using Bill Me Later; under some promotional arrangements offered on select merchant sites, interest on such payments can be deferred for as long as six months.

When a consumer makes a purchase using a Bill Me Later credit product issued by a chartered financial institution, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and remits funds to the merchant. We subsequently purchase the receivables related to the extensions of credit made by the chartered financial institution and, as a result of that purchase, bear the risk of loss in the event of loan defaults.

Although the chartered financial institution continues to own each customer account, we own the related receivable and are responsible for all servicing functions related to the account. For information regarding risks related to our Bill Me Later business, see the information in "Item 1A: Risk Factors" under the captions "Bill Me Later's operations depend on lending services provided by an unaffiliated lender" and "Bill Me Later's operations expose us to additional risks."

Each PayPal account holder in the U.S. and in 109 other countries may withdraw money from his or her PayPal account through an electronic fund transfer to his or her U.S. bank account or, in approximately 45 of those countries, to their local bank account. In the U.S. and in five other countries, users can withdraw their funds by directing that PayPal mail them a check. Qualifying PayPal merchants in the U.S. are eligible to receive a PayPal ATM/debit card, which allows them to withdraw cash from any ATM connected to the Cirrus or Maestro networks and to make purchases at any merchant accepting MasterCard. In the U.K. and Italy, PayPal customers can apply for a prepaid card, which can be linked to a customer's PayPal account to add or withdraw funds. In certain markets, customers can also have funds in their PayPal account applied as a credit to their MasterCard credit card or debit card account.

We have embarked on plans to enable local merchants to offer PayPal at point of sale terminals.

In 2011, we began work on a PayPal point of sale payments solution for the U.S. and select European markets. In the U.S., the point of sale solution is intended to allow PayPal users who sign up for the service the ability to use their PayPal accounts to make purchases at participating local retailers. We expect that users will be able to access their PayPal account via a PayPal Access Card, mobile phone number and personal identification number (PIN), or near field communication-enabled device depending on what the retailer offers. This initiative is an important part of PayPal's strategy to provide a comprehensive payment solution for both online and brick-and-mortar retailers. We expect the pricing for PayPal's point of sale payments solution to be comparable to the pricing merchants would pay to competing processors for offline transactions. We expect the point of sale payments solution to be available, on a limited basis, as we roll out the product offering to more retailers in 2012.

PayPal also plans to leverage technology from our recent acquisition of WHERE.com to help merchants connect with local customers. WHERE.com is a local mobile discovery application and location-based mobile advertising network that provides personalized, hyper-local advertising, offers and deals to mobile consumers. We expect that integrating

PayPal into the WHERE.com mobile application will enable merchants that integrate PayPal's new capabilities to push offers to a wider user base.

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Our payments solutions offer leading fraud prevention and protection.

PayPal enables buyers to pay merchants quickly and easily without sharing sensitive financial information, such as credit card or debit card numbers. To make payments using PayPal, buyers need to disclose only their email addresses to merchants. The account-based nature of PayPal's network helps us to better detect and prevent fraud when funds enter, flow through and exit the PayPal network.

Bill Me Later accounts are most commonly opened on a U.S. merchant website offering Bill Me Later as a payment method, including eBay.com, but can also be opened via a qualified PayPal account or at the Bill Me Later website. When using Bill Me Later, qualified buyers need to provide only their name, address, birth date and the last four digits of their social security number. When using Zong, buyers need to input only their mobile phone number and respond to a text or email requiring them to approve the transaction.

PayPal has developed a number of trust and safety programs, including PayPal's Seller Protection and Purchase Protection Programs. These programs provide additional protection to certain account holders who pay or receive payment for their transactions through PayPal on or off eBay.com in certain key geographies. PayPal's Seller Protection Program covers sellers in certain key geographies who follow specific shipping and handling practices against claims that a transaction was not authorized by the buyer or that the item was not received. PayPal's Purchase Protection Program reimburses the buyer, subject to specified limitations, for qualified purchases using PayPal on or off eBay.com in certain key geographies if the buyer does not receive the item or, in limited markets, if the item is significantly not as described. In some non-U.S. markets, protection for buyers is limited to a maximum amount per transaction.

GSI

Acquired by eBay in June 2011, GSI is a leading provider of ecommerce and interactive marketing services to enterprise clients that include some of the world's premier brands and retailers. GSI offers a broad suite of solutions designed to power merchants' online businesses and effectively integrate with their other sales channels. GSI's advanced technology, fulfillment, customer care and interactive marketing services are designed to enable its clients to elevate the consumer experience and cost-effectively sustain it over time.

GSI operates two business units: Global eCommerce Services, or GeC, and Global Marketing Services, or GMS. Each business unit offers products and services that complement the other, which allows for cross-selling opportunities. While GSI operates on a global basis, for the period from its acquisition by eBay in June 2011 through December 31, 2011, nearly all of its net revenues were derived from its North American operations and its international operations were not material.

GSI enables companies to operate ecommerce businesses and to integrate their ecommerce businesses with other multi-channel retail offerings.

GSI sells its products and services on an individual basis and also as bundled solutions. The GeC business unit serves enterprise clients that operate in general merchandise categories, including apparel, sporting goods, toys & baby, health & beauty and home. We refer to GSI clients as enterprise clients because GSI generally serves large, nationally recognized brand name companies. The GeC ecommerce suite is comprised of three principal services: Technology & Payments, Fulfillment & Freight and Customer Care.

GSI Technology & Payments services provide retailers with ecommerce platforms, products and services.

GSI Technology & Payments uses shared sales, service, operations and administration teams for its three areas of focus: webstore & mobile, commerce exchange & multi-channel and payments.

Webstore & mobile provides secure shopping cart and checkout offerings, analytical tools, site management tools, including catalog, content and promotions management and guided product discovery.

Commerce exchange & multi-channel offerings provide transactional capabilities, including order management, inventory management and fulfillment integration. GSI's multi-channel offering is a suite of software products that enables in-store pickup, ship-from-store, ship-to-store and drop ship capabilities.

The payments offering provides a robust online payment processing engine with capabilities including price, tax and shipping calculations, address verification, order review and fraud prevention, credit card authorization and settlement and alternative payment processing, including PayPal as well as private label credit cards, gift cards and online gift certificates.

GSI Fulfillment & Freight services help retailers manage logistics complexities.

GSI operates six ecommerce fulfillment centers in the United States, one in Canada and one in the United Kingdom, encompassing over 3.2 million square feet. Within these facilities, GSI utilizes warehouse management systems and infrastructure to provide customized direct-to-consumer fulfillment solutions, including order management, real-time order status updates and reverse logistics services. Through scale and partnerships with leading freight providers, GSI offers clients favorable shipping rates and innovative freight programs, including its ShipQuik shipping program. Under this program, packages are presorted by customer zip code, which helps to shorten the time packages are in transit.

GSI Customer Care services provide retailers with integrated customer support for their online web stores.

Through three call centers in the United States and a network of customer support agents, plus one call center in the United Kingdom, GSI provides customer care services for ecommerce via telephone and email. GSI combines proprietary and third-party technologies, including automatic call distribution, computer telephony integration, interactive voice response, email, workforce management, voice recording/monitoring and customer relationship management systems in the customer care platform. The United Kingdom call center offers customer care in multiple languages.

GMS provides retailers with extensive online marketing services

The GMS business unit is focused on providing comprehensive, industry-leading solutions designed to help clients acquire new customers, convert more visitors into buyers, build significant customer loyalty and drive revenue across various channels. GMS offers a full-service digital agency, enterprise email marketing, mobile advertising, affiliate marketing, advertisement retargeting, and in-depth analytics capabilities.

X.commerce

In addition to our reportable segments, in 2011, we launched a business initiative of cloud-based commerce tools called X.commerce. X.commerce is a platform that provides software developers access to our APIs to develop functionality for merchants of all sizes. By bringing together the technology assets and developer communities of eBay, PayPal and Magento, an ecommerce storefront platform we acquired in August 2011, the X.commerce ecosystem provides tools that are designed to drive innovation for online, mobile, social and local commerce. Merchants can use these tools to create web storefronts, track sales and collect payments. We also have an application store called Magento Connect where developers can market and sell add-on functionality and solutions to merchants that use a Magento storefront.

Communications

Previously, we had a Communications reportable segment which consisted of Skype. Skype offers a way for people around the world to stay in touch over the Internet through free voice and video calls, sending instant messages, SMS (text messaging) or files, and by making low-cost calls to landline and mobile numbers.

In November 2009, we completed the sale of Skype to an entity (Buyer) owned and organized by an investor group. As part of the sale, we maintained a 30 percent equity interest in the outstanding capital stock of the Buyer. Skype was consolidated with our results of operations through the date that the sale of Skype was completed. In October 2011, we sold our remaining equity stake in the Buyer to Microsoft Corp. For additional details related to the sale of Skype, please see "Note 4 – Skype Related Transactions" to the consolidated financial statements included in this report.

Competition

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

For our Payments segment, our users may choose to pay through a variety of alternative means, including credit and debit cards, automated clearing house and bank wires, other online payment services, offline payment methods such as

cash, check or money order and using mobile phones. Likewise, our users may elect to finance their purchases through a broad range of other sources of financing, including credit cards, lines of credit provided by financial institutions and store credit or layaway plans provided by merchants.

Our GSI segment faces different competitors for each of its two business units. GSI seeks to compete on the basis of offering premium capabilities with a cost advantage. While each of GSI's business units competes on a stand-alone basis, GSI also seeks to differentiate itself by cross-selling and bundling services to offer more attractive pricing and integrated implementations.

For more information regarding these risks, see the information in "Item 1A: Risk Factors" under the captions "Our industries are intensely competitive" and "We are subject to regulatory activity and antitrust litigation under competition laws."

To compete effectively, we may need to expend significant resources in technology and marketing. These efforts may be expensive and could reduce our margins and have a materially adverse effect on our business, financial position, operating results and cash flows and reduce the trading price of our stock. Despite our efforts to preserve and expand the size, diversity and transaction activity of our users and customers and to enhance the user experience, we may not be able to continue to manage our operating expenses or increase or maintain our revenue to avoid or reduce a decline in our consolidated net income or avoid a net loss.

Seasonality

We expect transaction activity patterns on our websites to mirror general consumer buying patterns. Our GSI segment is highly seasonal. The fourth calendar quarter typically accounts for a disproportionate amount of GSI's total annual revenue because consumers increase their purchases and businesses increase their advertising to consumers during the fourth quarter holiday season. Please see the additional information in "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Seasonality."

Technology

Our Marketplaces, Payments and GSI platforms utilize a combination of proprietary technologies and services as well as technologies and services provided by others. We have developed intuitive user interfaces, customer tools and transaction processing, database and network applications that help enable our users to reliably and securely complete transactions on our sites and help GSI's clients to utilize its suite of services. Our technology infrastructure simplifies the storage and processing of large amounts of data, eases the deployment and operation of large-scale global products and services and automates much of the administration of large-scale clusters of computers. Our infrastructure has been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences. We strive to continually improve our technology to enhance the customer experience and to increase efficiency, scalability and security. For information regarding technology-related risks, see the information in "Item 1A: Risk Factors" under the captions "System failures and resulting interruptions in the availability of our websites and services could harm our business" and "Our failure to cost-effectively manage certain aspects of our business could harm us."

Intellectual Property

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

We pursue the registration of our domain names, trademarks, and service marks in the U.S. and internationally. Additionally, we have filed U.S. and international patent applications covering certain aspects of our proprietary technology. Effective trademark, copyright, patent, domain name, trade dress and trade secret protection is very expensive to maintain and may require litigation. We must protect our intellectual property rights and other proprietary rights in an increasing number of jurisdictions, a process that is expensive and time consuming and may not be successful in every location.

We have registered our core brands as trademarks and domain names in the U.S. and a large number of other jurisdictions and have in place an active program to continue to secure trademarks and domain names that correspond to our brands in markets of interest. If we are unable to protect our trademarks or domain names, we could be

adversely affected in any jurisdiction in which our trademarks or domain names are not registered. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others.

Third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We currently are involved in several such legal proceedings. Please see the information in “Item 3: Legal Proceedings” and in “Item 1A: Risk Factors” under the captions "The listing or sale by our users of pirated or counterfeit items may harm our business," "We are subject to patent litigation" and "We may be unable to protect or enforce our own intellectual property rights adequately.”

Employees

As of December 31, 2011, we employed approximately 27,770 people (including temporary employees), approximately 18,720 of whom were located in the U.S.

Available Information

Our Internet address is www.ebay.com. Our investor relations website is located at <http://investor.ebayinc.com>. We make available free of charge on our investor relations website under the heading “SEC Filings” our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with (or furnished to) the SEC. Information contained on our websites is not incorporated by reference into this Annual Report on Form 10-K.

Item 1A: RISK FACTORS

Risk Factors That May Affect Results of Operations and Financial Condition

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations, cash flows, as well as the trading price of our common stock. Our operating results have varied on a quarterly basis during our operating history. Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside our control. Factors that may affect our operating results include risks described elsewhere in this section and the following:

- general economic conditions, including the possibility of a prolonged period of limited economic growth or possible economic decline in the U.S. and Europe; adverse effects of the ongoing sovereign debt crisis in Europe, including its expected negative impact on European economic growth versus the rest of the world; disruptions to the credit and financial markets in Europe, the U.S., and elsewhere; contractions or limited growth in consumer spending or consumer credit; and adverse economic conditions that may be specific to the Internet, ecommerce and payments industries;

- our ability to retain an active user base, attract new users, and encourage existing users to list items for sale, purchase items through our websites, or use our payment services, especially when consumer spending is weak;
- the primary and secondary effects of previously announced and possible future changes to our pricing, products and policies, including, among other changes, restrictions or holds on payments made to sellers or in connection with certain categories of higher-risk transactions; intermediated payments in Germany; changes to our dispute resolution process; upgrades to eBay checkout services, including the introduction of a new eBay shopping cart/basket that enables buyers to add items from multiple sellers and pay in a single checkout; and recent changes to our fee structure, including the calculation of final value fees based on the total amount of the transaction (including shipping);

- our ability to improve the quality of the user experience on our websites and through mobile devices (including our customer support in the event of a problem) in light of the improved quality generally of the user experience offered by competitive merchants;

- consumer confidence in the safety and security of transactions using our websites or technology and the effect of any changes in our practices and policies on such confidence;

- our ability to manage the costs of and effectively implement our user protection programs;

- our ability to comply with existing and new laws and regulations, especially those that impact our Payments business, as we expand the range and geographical scope of our services and as we grow larger, including those laws and regulations discussed below under the caption "If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfers, money laundering, counter-terrorist financing, sanctions, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices";

- new laws or regulations (such as the proposed Stop Online Piracy Act (SOPA) and PROTECT IP Act (PIPA) laws in the U.S.) and interpretations of existing laws or regulations, including national court interpretations of the European Court of Justice's decision in the L'Oreal case (see "Item 3: Legal Proceedings" below), that impose liability on us for the actions of our users or otherwise harm our business models, especially as we become more actively involved in transactions on our platforms;

- regulatory and legal actions imposing obligations on our businesses or our users, including the injunction related to certain cosmetic and perfume brands (see "Item 3 — Legal Proceedings" below);

- the impact on PayPal or Bill Me Later of regulations enacted pursuant to new laws regulating financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the U.S.;

- our ability to manage the costs of compliance with existing and new laws and regulations that affect our businesses;

- the volume, velocity, size, timing, monetization, and completion rates of transactions using our websites or technology;

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our ability to reduce the loss of active buyers and sellers and increase activity of the users of our Marketplaces business, especially with respect to our top buyers and sellers;

our ability to develop product enhancements, programs, and features on different platforms (e.g., mobile devices, and the availability of PayPal at the retail point of sale) at a reasonable cost and in a timely manner;

changes to our use of advertising on our sites;

our ability to upgrade and develop our systems (including the migration to GSI's new technology platform), infrastructure and customer service capabilities to accommodate growth and to improve the functionality and reliability of our websites and services at a reasonable cost while maintaining 24/7 operations;

the actions of our competitors, including the introduction of new sites, services, products and functionality;

- the costs and results of litigation or regulatory actions that involve us;
- technical difficulties or service interruptions involving our websites or services provided to us or our users by third parties;
- our ability to manage the transaction loss rate in our Marketplaces, Payments and GSI ecommerce services businesses;
- our ability to manage funding costs, credit risk and interest-rate risk associated with our Bill Me Later business;
- our ability to successfully and cost-effectively integrate and manage businesses that we acquire, including GSI;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our businesses, operations and infrastructure;
- our ability to comply with the requirements of entities whose services are required for our operations, such as payment card networks and banks;
- the cost and availability of online and traditional advertising, and the success of our brand building and marketing campaigns;
- our ability to attract new personnel in a timely and effective manner and to retain key employees;
- the continued healthy operation of our technology suppliers and other parties with which we have commercial relations;
- continued consumer acceptance of the Internet and emerging consumer acceptance of mobile devices as a medium for ecommerce and payments in the face of increasing publicity about fraud, spoofing, phishing, viruses, spyware, malware and other dangers; and
- macroeconomic and geopolitical events affecting commerce generally.

It is difficult for us to forecast the level or source of our revenues or earnings accurately. In view of the rapidly evolving nature of our business, we believe that period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. We do not have backlog, and substantially all of our net revenues each quarter come from transactions involving sales or payments during that quarter. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast income statement expenses as a percentage of net revenues. Quarterly and annual income