EBAY INC
Form 10-Q
April 23, 2015

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

Form 10-Q

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

For the quarterly period ended March 31, 2015

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)
2065 Hamilton Avenue San Jose, California	95125
(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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] 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 [x] 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	[x]		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 [x]

As of April 20, 2015, there were 1,214,821,692 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

	March 31, 2015	December 31, 2014
	(In millions, except par value amounts)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$5,473	$6,328
Short-term investments	4,206	3,770
Accounts receivable, net	703	797
Loans and interest receivable, net	3,578	3,600
Funds receivable and customer accounts	10,891	10,545
Other current assets	1,663	1,491
Total current assets	26,514	26,531
Long-term investments	5,647	5,777
Property and equipment, net	2,947	2,902
Goodwill	8,965	9,094
Intangible assets, net	481	564
Other assets	287	264
Total assets	$44,841	$45,132
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$868	$850
Accounts payable	393	401
Funds payable and amounts due to customers	10,891	10,545
Accrued expenses and other current liabilities	5,145	5,393
Deferred revenue	190	188
Income taxes payable	124	154
Total current liabilities	17,611	17,531
Deferred and other tax liabilities, net	768	792
Long-term debt	6,795	6,777
Other liabilities	129	126
Total liabilities	25,303	25,226
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value; 3,580 shares authorized; 1,210 and 1,224 shares outstanding	2	2
Additional paid-in capital	14,084	13,887
Treasury stock at cost, 402 and 384 shares	(15,054)	(14,054)
Retained earnings	19,526	18,900
Accumulated other comprehensive income	980	1,171
Total stockholders' equity	19,538	19,906
Total liabilities and stockholders' equity	$44,841	$45,132

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, 2015	2014
	(In millions, except per share amounts) (Unaudited)	
Net revenues	$4,448	$4,262
Cost of net revenues	1,450	1,351
Gross profit	2,998	2,911
Operating expenses:		
Sales and marketing	794	805
Product development	485	480
General and administrative	665	465
Provision for transaction and loan losses	264	204
Amortization of acquired intangible assets	58	79
Total operating expenses	2,266	2,033
Income from operations	732	878
Interest and other, net	8	(5)
Income before income taxes	740	873
Provision for income taxes	(114)	(3,199)
Net income (loss)	$626	$(2,326)
Net income (loss) per share:		
Basic	$0.51	$(1.82)
Diluted	$0.51	$(1.82)
Weighted average shares:		
Basic	1,216	1,276
Diluted	1,229	1,276

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

3

eBay Inc.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2015	2014
	(In millions) (Unaudited)	
Net income (loss)	$626	$(2,326)
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation gain (loss)	(265)	(29)
Unrealized gains (losses) on investments, net	(22)	(97)
Tax (expense) benefit on unrealized gains (losses) on investments, net	9	42
Unrealized gains (losses) on hedging activities, net	89	15
Tax (expense) benefit on unrealized gains (losses) on hedging activities, net	(2)	(3)
Other comprehensive income (loss), net tax	(191)	(72)
Comprehensive income (loss)	$435	$(2,398)

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,	
	2015	2014
	(In millions) (Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$626	$(2,326)
Adjustments:		
Provision for transaction and loan losses	264	204
Depreciation and amortization	381	382
Stock-based compensation	185	149
Deferred income taxes	(87)	3,108
Changes in assets and liabilities, net of acquisition effects	(218)	(343)
Net cash provided by operating activities	1,151	1,174
Cash flows from investing activities:		
Purchases of property and equipment	(322)	(206)
Changes in principal loans receivable, net	(12)	(2)
Purchases of investments	(2,423)	(1,261)
Maturities and sales of investments	2,034	2,006
Acquisitions, net of cash acquired	—	(4)
Other	(1)	(1)
Net cash provided by (used in) investing activities	(724)	532
Cash flows from financing activities:		
Proceeds from issuance of common stock	38	55
Repurchases of common stock	(1,000)	(1,811)
Excess tax benefits from stock-based compensation	28	60
Tax withholdings related to net share settlements of restricted stock awards and units	(51)	(104)
Funds receivable and customer accounts, net	(346)	(388)
Funds payable and amounts due to customers, net	346	388
Other	—	7
Net cash used in financing activities	(985)	(1,793)
Effect of exchange rate changes on cash and cash equivalents	(297)	8
Net increase (decrease) in cash and cash equivalents	(855)	(79)
Cash and cash equivalents at beginning of period	6,328	4,494
Cash and cash equivalents at end of period	$5,473	$4,415
Supplemental cash flow disclosures:		
Cash paid for interest	$74	$36
Cash paid for income taxes	$101	$35

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

We are a global technology company that enables commerce through three reportable segments: Marketplaces, Payments and Enterprise. Our Marketplaces segment includes our eBay.com platform and its localized counterparts and our other online platforms, such as our online classifieds sites and StubHub. Our Payments segment is comprised of our PayPal business. Our Enterprise segment includes our Magento business and provides commerce technologies, omnichannel operations and marketing solutions for merchants of all sizes that operate in general merchandise categories. In January 2015, we announced that we will be exploring strategic options for eBay Enterprise, including a possible sale or partial sale, or IPO.

On September 30, 2014, we announced that our Board of Directors, following a strategic review of our growth strategies and structure, has approved a plan to separate PayPal (consisting of our Payments segment) into an independent publicly traded company. We expect to complete the transaction as a tax-free spin-off in the second half of 2015, subject to market, regulatory, and certain other conditions. We also announced that Dan Schulman has been appointed as President of PayPal and CEO-designee of the standalone PayPal company following separation, and that Devin Wenig, currently president of eBay Marketplaces, will become CEO of eBay following separation. We have also recently announced that, following the separation, we expect that Tom Tierney will become the Chairman of the Board of eBay Inc. and that John Donahoe will become the Chairman of the Board of PayPal Holdings, Inc.

We are required to comply with various regulations worldwide in order to operate our businesses, particularly our Payments business. We also partner with banks and other financial institutions to offer our Payments services globally. Changes in laws or regulations, non-compliance with laws or regulations or loss of key bank or financial institution partners could have a significant adverse impact on our ability to operate our Payments business; therefore, we monitor these areas closely with the goal of mitigating potential adverse impacts.

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, 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 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, 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.

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

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, 2014. 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 presentation of the condensed consolidated financial statements for interim periods.

Recent Accounting Pronouncements

In 2014, the FASB issued new guidance related to reporting discontinued operations. This new standard raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The new standard is effective for the Company and will impact the treatment of our planned spin-off of PayPal expected to occur in the second half of 2015 and any potential disposition transaction related to our Enterprise segment. This new accounting guidance will impact our financial statements by requiring additional disclosures after the spin-off of PayPal.

In 2014, the 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. This guidance will be effective for eBay Inc. beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the impact of adopting this new accounting guidance on our financial statements.

In 2014, the FASB issued new guidance related to development-stage entities. The new standard removes all incremental financial reporting requirements from GAAP for development-stage entities. The accounting standards update also removes an exception provided to development stage entities in consolidations for determining whether an entity is a variable interest entity. As of the first annual period beginning after December 15, 2014, the presentation and disclosure requirements in Topic 915 will no longer be required. The revised consolidation standards are effective one year later, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The adoption of the presentation and disclosure requirements in Topic 915 did not have a material impact on our financial statements. We are evaluating the impact, if any, of adopting the remaining new accounting guidance on our financial statements.

In 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In 2014, the FASB issued new guidance related to pushdown accounting. The new guidance provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments are effective on November 18, 2014. We adopted this guidance, as required, on November 18, 2014. The adoption of this guidance did not have a material impact on our financial statements.

In 2015, the FASB issued new guidance related to consolidations. The new standard amends the guidelines for determining whether certain legal entities should be consolidated and reduces the number of consolidation models. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

In 2015, the FASB issued new guidance related to presentation of debt issue costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

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

In 2015, the FASB issued new guidance related to accounting for fees paid in a cloud computing arrangement. The new standard provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

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 periods indicated:

	Three Months Ended March 31,	
	2015	2014
	(In millions, except per share amounts)	
Numerator:		
Net income (loss)	$626	$(2,326)
Denominator:		
Weighted average shares of common stock - basic	1,216	1,276
Dilutive effect of equity incentive awards	13	—
Weighted average shares of common stock - diluted	1,229	1,276
Net income (loss) per share:		
Basic	$0.51	$(1.82)
Diluted	$0.51	$(1.82)
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	4	51

Note 3 — 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, 2015:

	December 31, 2014	Goodwill Acquired	Adjustments	March 31, 2015
	(In millions)			
Reportable segments:				
Marketplaces	$4,678	$—	$(127)	$4,551

Payments	3,130	—	(2)	3,128
Enterprise	1,286	—	—	1,286
	$9,094	$—	$(129)	$8,965

The adjustments to goodwill during the three months ended March 31, 2015 were due primarily to foreign currency translations.

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

In January 2015, we announced that we will be exploring strategic options for our eBay Enterprise business, including a possible sale or partial sale, or IPO. If the expected fair value received in a disposition of our eBay Enterprise business is less than its carrying value, a goodwill impairment charge will be realized.

Intangible Assets

The components of identifiable intangible assets are as follows:

	March 31, 2015				December 31, 2014			
	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 millions, except years)							
Intangible assets:								
Customer lists and user base	$1,626	$ (1,394)	$232	5	$1,641	$ (1,367)	$274	5
Marketing related	821	(721)	100	5	849	(729)	120	5
Developed technologies	575	(490)	85	4	579	(478)	101	4
All other	281	(217)	64	4	279	(210)	69	4
	$3,303	$ (2,822)	$481		$3,348	$ (2,784)	$564	

Amortization expense for intangible assets was $80 million and $109 million for the three months ended March 31, 2015 and 2014, respectively.

Expected future intangible asset amortization as of March 31, 2015 is as follows (in millions):

Fiscal years:	
Remaining 2015	$228
2016	178
2017	50
2018	20
2019	5
Thereafter	—
	$481

Note 4 — Segments

We have three reportable segments: Marketplaces, Payments and Enterprise. We allocate resources to and assess the performance of each reportable segment using information about its revenue and operating income (loss). We do not evaluate operating segments using discrete asset information. We do not allocate gains and losses from equity investments, interest and other income, or taxes to our reportable segments.

The corporate and other category includes income, expenses and charges such as:

- results of operations of various initiatives which support all of our reportable segments;

- corporate management costs, such as human resources, finance and legal, not allocated to our segments;
- amortization of intangible assets;
- separation related expenses;
- restructuring charges; and
- stock-based compensation expense.

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

The following tables summarize the financial performance of our reportable segments and provide a reconciliation to our consolidated operating results for the periods reflected below:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Net Revenue		
Marketplaces		
Net transaction revenues	$1,672	$1,727
Marketing services and other revenues	397	428
	2,069	2,155
Payments		
Net transaction revenues	1,940	1,700
Marketing services and other revenues	168	145
	2,108	1,845
Enterprise		
Net transaction revenues	224	208
Marketing services and other revenues	64	61
	288	269
Elimination of inter-segment net revenue [1]	(17)	(7)
Total consolidated net revenue	$4,448	$4,262
Operating income (loss)		
Marketplaces	$811	$856
Payments	533	475
Enterprise	14	13
Corporate and other	(626)	(466)
Total operating income (loss)	$732	$878

(1) Represents revenue generated between our reportable segments.

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

Note 5 — Investments

At March 31, 2015 and December 31, 2014, the estimated fair value of our short-term and long-term investments classified as available for sale, were as follows:

	March 31, 2015			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Short-term investments:				
Restricted cash	$36	$—	$—	$36
Corporate debt securities	3,108	2	(1)	3,109
Government and agency securities	5	—	—	5
Time deposits and other	60	—	—	60
Equity instruments	10	986	—	996
	$3,219	$988	$(1)	$4,206
Long-term investments:				
Corporate debt securities	5,360	31	(10)	5,381
Government and agency securities	51	—	—	51
	$5,411	$31	$(10)	$5,432

	December 31, 2014			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Short-term investments:				
Restricted cash	$29	$—	$—	$29
Corporate debt securities	2,519	1	(1)	2,519
Government and agency securities	3	—	—	3
Time deposits and other	181	—	—	181
Equity instruments	10	1,028	—	1,038
	$2,742	$1,029	$(1)	$3,770
Long-term investments:				
Corporate debt securities	5,319	18	(18)	5,319
Government and agency securities	232	1	—	233
	$5,551	$19	$(18)	$5,552

We had no material long-term or short-term investments that have been in a continuous unrealized loss position for more than 12 months as of March 31, 2015 and December 31, 2014. Refer to "Note 14 - Accumulated Other Comprehensive Income" for amounts reclassified to earnings from unrealized gains and losses.

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

The estimated fair values of our short-term and long-term investments classified as available for sale by date of contractual maturity at March 31, 2015 are as follows:

	March 31, 2015 (In millions)
One year or less (including restricted cash of $36)	$3,210
One year through two years	1,776
Two years through three years	2,188
Three years through four years	1,073
Four years through five years	324
Five years through six years	58
Six years through seven years	1
Seven years through eight years	—
Eight years through nine years	11
Nine years through ten years	1
	$8,642

Equity and cost method investments

We have made multiple equity and cost method investments which are reported in long-term investments on our consolidated balance sheet. As of March 31, 2015 and December 31, 2014, our equity and cost method investments totaled $215 million and $225 million, respectively.

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

Note 6 — Fair Value Measurement of Assets and Liabilities

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014:

Description	Balance as of March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In millions)		
Assets:			
Cash and cash equivalents	$5,473	$3,867	$1,606
Short-term investments:			
Restricted cash	36	36	—
Corporate debt securities	3,109	—	3,109
Government and agency securities	5	—	5
Time deposits	60	—	60
Equity instruments	996	996	—
Total short-term investments	4,206	1,032	3,174
Funds receivable and customer accounts	3,745	—	3,745
Derivatives	376	—	376
Long-term investments:			
Corporate debt securities	5,381	—	5,381
Government and agency securities	51	—	51
Total long-term investments	5,432	—	5,432
Total financial assets	$19,232	$4,899	$14,333
Liabilities:			
Derivatives	$51	$—	$51

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

Description	Balance as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In millions)		
Assets:			
Cash and cash equivalents	$6,328	$3,917	$2,411
Short-term investments:			
Restricted cash	29	29	—
Corporate debt securities	2,519	—	2,519
Government and agency securities	3	—	3
Time deposits	181	—	181
Equity instruments	1,038	1,038	—
Total short-term investments	3,770	1,067	2,703
Funds receivable and customer accounts	4,161	—	4,161
Derivatives	222	—	222
Long-term investments:			
Corporate debt securities	5,319	—	5,319
Government and agency securities	233	—	233
Total long-term investments	5,552	—	5,552
Total financial assets	$20,033	$4,984	$15,049
Liabilities:			
Derivatives	$29	$—	$29

Our financial assets and liabilities are valued using market prices on both active markets (level 1) and less active markets (level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs. The majority of our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as equity prices, interest rate yield curves, option volatility and currency rates. We did not have any transfers of financial instruments between valuation levels during the three months ended March 31, 2015.

Cash and cash equivalents are short-term, highly liquid investments with original or remaining maturities of three months or less when purchased and are comprised primarily of bank deposits, certificates of deposit, commercial paper and money market funds. We had total funds receivable and customer accounts of $10.9 billion as of March 31, 2015, of which $3.7 billion was invested in time deposits and U.S. and foreign government and agency securities. We elect to account for certain customer accounts, including foreign-currency denominated available-for-sale investments, under the fair value option. Election of the fair value option allows us to significantly reduce the accounting asymmetry that would otherwise arise when recognizing foreign exchange gains and losses relating to available-for-sale investments and the corresponding customer liabilities.

In addition, we had cost and equity method investments of approximately $215 million and $225 million included in long-term investments on our condensed consolidated balance sheet at March 31, 2015 and December 31, 2014, respectively.

Our derivative instruments vary in duration depending on contract type. Our foreign exchange derivative contracts are primarily short-term in nature, generally one month to one year in duration. Certain foreign currency contracts designated as cash flow hedges may have a duration of up to 18 months. The duration of our interest rate derivative contracts match the duration of the fixed rate notes due 2019, 2021 and 2024.

As of March 31, 2015 and December 31, 2014, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

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

Other financial instruments, including accounts receivable, loans and interest receivable, accounts payable, funds receivable, certain customer accounts, funds payable and amounts due to customers, are carried at cost, which approximates their fair value because of the short-term nature of these instruments.

Note 7 — Derivative Instruments

Summary of Derivative Instruments

Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates and interest rates. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. We seek to mitigate such risk by limiting our counterparties to, and by spreading the risk across, major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. To further limit credit risk, we also enter into collateral security arrangements related to certain interest rate derivative instruments whereby collateral is posted between counterparties if the fair value of the derivative instrument exceeds certain thresholds. Additional collateral would be required in the event of a significant credit downgrade by either party.

Foreign Exchange Contracts

We transact business in various foreign currencies and have significant international revenues as well as costs denominated in foreign currencies, which subjects us to foreign currency risk. We use foreign currency exchange contracts, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenues, expenses, assets and liabilities denominated in foreign currencies. The objective of the foreign exchange contracts is to better ensure that the U.S. dollar-equivalent cash flows are not adversely affected by changes in the applicable U.S. dollar/foreign currency exchange rate. For derivative instruments that are designated as cash flow hedges, the effective portion of the derivative’s gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings. We evaluate the effectiveness of our foreign exchange contracts on a quarterly basis. We do not use any foreign exchange contracts for trading purposes.

For our derivative instruments designated as cash flow hedges, the amounts recognized in earnings related to the ineffective portion were not material in each of the periods presented, and we did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. As of March 31, 2015, we have estimated that approximately $243 million of net derivative gains related to our cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

Interest Rate Contracts

In connection with the July 2014 issuance of our fixed rate notes due 2019, 2021 and 2024, we entered into certain interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with $2.4 billion of these notes so that the interest payable on these senior notes effectively became variable based on London InterBank Offered Rate (LIBOR) plus a spread. We have designated these swap agreements as qualifying hedging instruments and are accounting for them as fair value hedges. These transactions are characterized as fair value hedges for financial accounting purposes because they protect us against changes in the fair value of certain of our fixed rate borrowings due to benchmark interest rate movements. Changes in the fair values of these interest rate swap agreements are recognized in other assets or other liabilities with a corresponding increase or decrease in long-term debt. Each quarter we pay interest based on LIBOR plus a spread to the counterparty and on a semi-annual basis receive interest from the counterparty per the fixed rate of these senior notes. The net amount is recognized as interest expense in interest and other, net. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings. We evaluate the effectiveness of our contracts on a quarterly basis. We do not use any interest rate swap agreements for trading purposes.

For our derivative instruments designated as fair value hedges, the amounts recognized in earnings related to the ineffective portion were not material in each of the periods presented, and we did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness.

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

Fair Value of Derivative Contracts

The fair values of our outstanding derivative instruments as of March 31, 2015 and December 31, 2014 were as follows:

	Balance Sheet Location	March 31, 2015	December 31, 2014
		(In millions)	
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	$257	$170
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	60	30
Interest rate contracts designated as fair value hedges	Other Assets	59	22
Total derivative assets		$376	$222
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	$—	$2
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	51	27
Total derivative liabilities		$51	$29
Total fair value of derivative instruments		$325	$193

Under the master netting agreements with the respective counterparties to our derivative contracts, subject to applicable requirements, we are allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, we have elected to present the derivative assets and derivative liabilities on a gross basis on our condensed consolidated balance sheet. As of March 31, 2015, the potential effect of rights of set-off associated with the foreign exchange contracts discussed above would be an offset to both assets and liabilities by $47 million, resulting in net derivative assets and derivative liabilities of $270 million and $4 million, respectively. We are not required to pledge, nor are we entitled to receive, collateral related to our foreign exchange derivative transactions. As of March 31, 2015, we had neither pledged nor received collateral related to our interest rate derivative transactions.

Effect of Derivative Contracts on Accumulated Other Comprehensive Income

The following table summarizes the activity of derivative contracts that qualify for hedge accounting as of March 31, 2015 and December 31, 2014, and the impact of these derivative contracts on accumulated other comprehensive income for the three months ended March 31, 2015:

	December 31, 2014	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Amount of gain (loss) reclassified from accumulated other comprehensive income	March 31, 2015

			to net revenue and operating expense (effective portion)	
	(In millions)			
Foreign exchange contracts designated as cash flow hedges	$168	$159	$70	$257

16

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

The following table summarizes the activity of derivative contracts that qualify for hedge accounting as of March 31, 2014 and December 31, 2013, and the impact of these derivative contracts on accumulated other comprehensive income for the three months ended March 31, 2014:

	December 31, 2013	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Amount of gain (loss) reclassified from accumulated other comprehensive income to net revenue and operating expense (effective portion)	March 31, 2014
	(In millions)			
Foreign exchange contracts designated as cash flow hedges	$(106)	$(6)	$(21)	$(91)

Effect of Derivative Contracts on Condensed Consolidated Statement of Income

The following table provides the location in our financial statements of the recognized gains or losses related to our foreign exchange derivative instruments:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	$50	$(17)
Foreign exchange contracts designated as cash flow hedges recognized in operating expenses	20	(4)
Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net	27	(10)
Total gain (loss) recognized from foreign exchange derivative contracts in the condensed consolidated statement of income	$97	$(31)

The following table provides the location in our financial statements of the recognized gains or losses related to our interest rate derivative instruments:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Gain (loss) from interest rate contracts designated as fair value hedges recognized in interest and other, net	$59	N/A
Gain (loss) from hedged items attributable to hedged risk recognized in interest and other, net	(59)	N/A
Total gain (loss) recognized from interest rate derivative contracts in the condensed consolidated statement of income	$—	N/A

17

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

Notional Amounts of Derivative Contracts

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

	March 31, 2015	2014
	(In millions)	
Foreign exchange contracts designated as cash flow hedges	$2,040	$1,802
Foreign exchange contracts not designated as hedging instruments	3,276	2,996
Interest rate contracts designated as fair value hedges	2,400	N/A
Total	$7,716	$4,798

Note 8 — Debt
The following table summarizes the carrying value of our outstanding debt:

	Coupon Rate	Carrying Value as of March 31, 2015	Effective Interest Rate	Carrying Value as of December 31, 2014	Effective Interest Rate
	(In millions, except percentages)				
Long-Term Debt					
Floating Rate Notes:					
Senior notes due 2017	LIBOR plus 0.20%	$450	0.562 %	450	0.560 %
Senior notes due 2019	LIBOR plus 0.48%	400	0.813 %	400	0.811 %
Fixed Rate Notes:					
Senior notes due 2017	1.350 %	1,000	1.456 %	1,000	1.456 %
Senior notes due 2019	2.200 %	1,148	2.346 %	1,148	2.346 %
Senior notes due 2020	3.250 %	498	3.389 %	498	3.389 %
Senior notes due 2021	2.875 %	749	2.993 %	749	2.993 %
Senior notes due 2022	2.600 %	999	2.678 %	999	2.678 %
Senior notes due 2024	3.450 %	749	3.531 %	749	3.531 %
Senior notes due 2042	4.000 %	743	4.114 %	743	4.114 %
Total senior notes		6,736		6,736	
Hedge accounting fair value adjustments		59		22	
Other indebtedness		—		19	
Total long-term debt		$6,795		$6,777	
Short-Term Debt					
Senior notes due 2015	0.700 %	250	0.820 %	250	0.820 %
Senior notes due 2015	1.625 %	600	1.805 %	600	1.805 %
Other indebtedness		18		—	

Total short-term debt	868	850
Total Debt	$7,663	$7,627

18

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

Senior Notes
In July 2014, we issued senior unsecured notes, or senior notes, in an aggregate principal amount of $3.5 billion. These senior notes consist of $450 million aggregate principal amount of floating rate notes due 2017, $400 million aggregate principal amount of floating rate notes due 2019, $1.15 billion aggregate principal amount of 2.2% fixed rate notes due 2019, $750 million aggregate principal amount of 2.875% fixed rate notes due 2021 and $750 million aggregate principal amount of 3.45% fixed rate notes due 2024. The floating rate notes due 2017 bear interest at a floating rate equal to the 3-month LIBOR plus 0.20%. The floating rate notes due 2019 bear interest at a floating rate equal to the 3-month LIBOR plus 0.48%. Interest on the floating rate notes due 2017 is paid quarterly on January 28, April 28, July 28 and October 28 of each year. Interest on the floating rate notes due 2019 is paid quarterly on February 1, May 1, August 1 and November 1 of each year. Interest on the fixed rate notes due 2019, 2021 and 2024 is payable semi-annually on February 1 and August 1. The floating rate notes are not redeemable prior to maturity. We may redeem some or all of the fixed rate notes of each series at any time and from time to time prior to their maturity, generally at a make-whole redemption price.

To help achieve our interest rate risk management objectives, in connection with the July 2014 issuance of senior notes, we entered into interest rate swap agreements that effectively converted $2.4 billion of our fixed rate debt to floating rate debt based on LIBOR. These swaps were designated as fair value hedges against changes in the fair value of certain fixed rate senior notes resulting from changes in interest rates. The gains and losses related to changes in the fair value of interest rate swaps substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to changes in market interest rates.

The effective interest rates for our senior notes include the interest payable, the amortization of debt issuance costs and the amortization of any original issue discount on these senior notes. Interest on these senior notes is payable either quarterly or semiannually. Interest expense associated with our senior notes, including amortization of debt issuance costs, during the three months ended March 31, 2015 and 2014 was approximately $45 million and $25 million, respectively. At March 31, 2015, the estimated fair value of these senior notes was approximately $7.6 billion.

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

Other Indebtedness
Our other indebtedness is comprised of overdraft facilities. We have formal overdraft facilities in India bearing interest on drawn balances at a rate of approximately 10% per annum. Drawn balances are expected to be repaid in less than one year.

Commercial Paper
We have an up to $2 billion commercial paper program pursuant to which we may issue commercial paper notes with maturities of up to 397 days from the date of issue in an aggregate principal amount at maturity of up to $2 billion outstanding at any time. As of March 31, 2015, there were no commercial paper notes outstanding.

Credit Agreement
As of March 31, 2015, no borrowings or letters of credit were outstanding under our $3 billion credit agreement. However, as described above, we have an up to $2 billion commercial paper program and therefore maintain $2 billion of available borrowing capacity under our credit agreement in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they become due. As a result, at March 31, 2015, $1 billion of borrowing capacity was available for other purposes permitted by the credit agreement.

The credit agreement includes customary representations, warranties, affirmative and negative covenants, including a financial covenant, events of default and indemnification provisions in favor of the banks. The negative covenants include restrictions regarding the incurrence of liens, subject to certain exceptions. The financial covenant requires us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio.

We were in compliance with all covenants in our outstanding debt instruments for the three-month period ended March 31, 2015.

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

Note 9 — Commitments and Contingencies

Commitments

As of March 31, 2015, approximately $21.5 billion of unused credit was available to PayPal Credit accountholders. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit accountholders will access their entire available credit at any given point in time. In addition, the individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institutions that are the issuers of PayPal Credit products based on, among other things, account usage and customer creditworthiness. When a consumer makes a purchase using a PayPal Credit product, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the consumer receivables related to the consumer loans and as a result of that purchase, bear the risk of loss in the event of loan defaults. However, we subsequently sell a participation interest in the entire pool of consumer loans to the chartered financial institution that extended the consumer loans. Although the chartered financial institution continues to own each customer account, we own and bear the risk of loss on the related consumer receivables, less the participation interest held by the chartered financial institution, and PayPal is responsible for all servicing functions related to the customer account balances. As of March 31, 2015, the total outstanding principal balance of this pool of consumer loans was $3.6 billion, of which the chartered financial institution owned a participation interest of $169 million, or 4.63% of the total outstanding balance of the consumer loans as of that date.

In addition, in June 2014, we agreed, subject to certain conditions, that PayPal, one of its affiliates or a third party partner will purchase a portfolio of consumer loan receivables relating to the customer accounts arising out of our current credit program agreement with Synchrony (formerly GE Capital Retail Bank) for a price based on the book value of the consumer loan receivables portfolio at the time of the purchase (expected to be October 2016), subject to certain adjustments and exclusions. As of December 31, 2014, Synchrony had a net receivables portfolio under the credit program agreement of approximately $1.5 billion.

Litigation and Other Legal Matters

Overview

We are involved in legal and regulatory proceedings on an ongoing basis. Many of these proceedings are in early stages and may seek an indeterminate amount of damages. If we believe that a loss arising from such matters is probable and can be reasonably estimated, we accrue the estimated liability in our financial statements. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range. For those proceedings in which an unfavorable outcome is reasonably possible but not probable, we have disclosed an estimate of the reasonably possible loss or range of losses or we have concluded that an estimate of the reasonably possible loss or range arising directly from the proceeding (i.e., monetary damages or amounts paid in judgment or settlement) are not material. If we cannot estimate the probable or reasonably possible loss or range of losses arising from a proceeding, we have disclosed that fact. In assessing the materiality of a proceeding, we evaluate, among other factors, the amount of monetary damages claimed, as well as the potential impact of non-monetary remedies sought by plaintiffs (e.g., injunctive relief) that may require us to change our business practices in a manner that could have a material adverse impact on our business. With respect to the matters disclosed in this Note 9, we are unable to estimate the possible loss or range of losses that could potentially result from the application of such non-monetary remedies.

Amounts accrued for legal and regulatory proceedings for which we believe a loss is probable were not material for the three months ended March 31, 2015. Except as otherwise noted for the proceedings described in this Note 9, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management’s expectations, the impact on our operating results or financial condition for that reporting period could be material.

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

Litigation

eBay's Korean subsidiary, IAC (which has merged into Gmarket and is now named eBay Korea), has notified its approximately 20 million users of a January 2008 data breach involving personally identifiable information including name, address, resident registration number and some transaction and refund data (but not including credit card information or real time banking information). Approximately 149,000 users sued IAC over this breach in several lawsuits in Korean courts and trial for a group of representative suits began in August 2009 in the Seoul Central District Court (SCDC). There is some precedent in Korea for a court to grant “consolation money” for data breaches without a specific finding of harm from the breach. In January 2010, the SCDC ruled that IAC had met its obligations with respect to defending the website from intrusion and, accordingly, had no liability for the breach. This January 2010 ruling was appealed by approximately 34,000 plaintiffs to the Seoul High Court. In 2012, the Seoul High Court announced its decision upholding the SCDC's January 2010 decision for three cases, and during 2013, the Seoul High Court upheld the SCDC's January 2010 ruling in another 18 cases. The Seoul High Court's decision was appealed by 33,218 plaintiffs in 11 cases to the Korea Supreme Court. In February 2015, the Korea Supreme Court upheld the lower courts’ decisions in favor of IAC and dismissed the plaintiffs’ appeals in all 11 pending cases.

In January 2013, the Seoul Western District Court ruled in favor of IAC with respect to two other cases filed by 2,291 plaintiffs by following the SCDC's January 2010 ruling, and 2,284 plaintiffs proceeded to appeal this decision of the Seoul Western District Court to the Seoul High Court. On April 4, 2015, these two remaining Seoul High Court cases were withdrawn, and there is no relevant case pending in this matter before any court. While it is not practical, it is possible for IAC users to file new lawsuits until the statute of limitations expires in January 2018.

eBay Inc., eBay Domestic Holdings, Inc., Pierre Omidyar and Joshua Silverman have been sued by craigslist, Inc. in California Superior Court in San Francisco (Case No.: CGC - 08 - 475276). craigslist filed suit on May 13, 2008 alleging that we engaged in conduct designed to harm craigslist's business while we negotiated to become and while we were a minority shareholder in craigslist. craigslist’s allegations include that we (i) misrepresented, concealed, suppressed and failed to disclose facts in order to induce craigslist to take detrimental action; (ii) interfered with craigslist's business operations; (iii) improperly disseminated and misused confidential and proprietary information from craigslist that we received as a minority investor; (iv) infringed and diluted craigslist's trademark and trade name; and (v) breached duties owed to craigslist. The complaint seeks significant compensatory and punitive damages, rescission and other relief. In addition, in September 2014, craigslist filed an amended complaint alleging trade secret misappropriation and seeking new and additional compensatory and punitive damages. The parties are currently engaged in discovery and a trial date has not yet been set.

Regulatory Proceedings

PayPal routinely reports to the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) on payments it has rejected or blocked pursuant to OFAC sanctions regulations and on any possible violations of those regulations. PayPal has cooperated with OFAC in recent years regarding PayPal’s review process over transaction monitoring and has self-reported a large number of small dollar amount transactions that could possibly be in violation of OFAC sanctions regulations. In March 2015, we reached a settlement with OFAC regarding the possible violations arising from our practices between 2009 and 2013, before our implementation of real-time monitoring processes. The settlement did not have a material impact on our financial statements. In addition, we continue to cooperate with OFAC regarding more recent self-reported transactions that could also possibly be in violation of OFAC sanctions regulations. Such self-reported transactions could result in claims or actions against us including litigation, injunctions, damage awards or require us to change our business practices that could result in a material loss, require significant management time, result in the diversion of significant operational resources or otherwise harm our business.

On August 7, 2013 and January 13, 2014, eBay, PayPal and certain wholly owned subsidiaries of PayPal received Civil Investigative Demands (CIDs) from the Consumer Financial Protection Bureau (CFPB) requesting that we provide testimony, produce documents and provide information relating primarily to the acquisition, management, and operation of our PayPal Credit products, including online credit products and services, advertising, loan origination, customer acquisition, servicing, debt collection, and complaints handling practices. The CIDs could lead to an enforcement action and/or one or more significant consent orders, which may result in substantial costs, including legal fees, fines, penalties and remediation expenses. We are cooperating with the CFPB in connection with the CIDs and are engaging in settlement discussions. The CFPB provided us with a Notice and Opportunity to Respond and Advise and indicated that a lawsuit could be filed against us as early as the second quarter of 2015. Resolution of these inquiries could require us to make monetary payments to certain customers, pay fines and/or change the manner in which we operate the PayPal Credit products, which could adversely affect our business.

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

In May 2014, we publicly announced that criminals were able to penetrate our network and steal certain data, including user names, encrypted user passwords and other non-financial user data, from eBay's Marketplaces business unit. Upon making this announcement, eBay Marketplaces required all buyers and sellers on the Marketplaces platform to reset their passwords in order to login to their account. In addition to making this public announcement, we proactively approached a number of regulatory and governmental bodies, including those with the most direct supervisory authority over our data privacy and data security programs, to specifically inform them of the incident and our actions to protect our customers in response. Certain of those regulatory agencies have requested us to provide further, more detailed information regarding the incident, and we believe that we have fully cooperated in all of those requests. To date, we have not been informed by any regulatory authority of an intention to bring any enforcement action arising from this incident; however, in the future we may be subject to fines or other regulatory action. In addition, in July 2014, a putative class action lawsuit was filed against us for alleged violations and harm resulting from the incident. We are vigorously defending the lawsuit.

General Matters

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

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business, including suits by our users (individually or as class actions) alleging, among other things, improper disclosure of our prices, rules or policies, that our practices, prices, rules, policies or customer/user agreements violate applicable law or that we have acted unfairly and/or not acted in conformity with such prices, rules, policies or agreements. In addition to these types of disputes and regulatory inquiries, our operations are also subject to regulatory and/or legal review and/or challenges that tend to reflect the increasing global regulatory focus to which the payments industry is subject and, when taken as a whole with other regulatory and legislative action, such actions could result in the imposition of costly new compliance burdens on our Payments business and its customers and may lead to increased costs and decreased transaction volume and revenue. Further, the number and significance of these disputes and inquiries are increasing as our company has grown larger, our businesses have expanded in scope (both in terms of the range of products and services that we offer and our geographical operations) and our products and services have increased in complexity. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards (including statutory damages for certain causes of action in certain jurisdictions), injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.

Indemnification Provisions

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain cases, we have agreed to provide indemnification for intellectual property infringement. Our Enterprise business has provided in many of its major ecommerce agreements an indemnity for other types of third-party claims, which are indemnities mainly related to various intellectual property rights, and we have provided similar indemnities in a limited number of agreements for our other businesses, including our Magento business. In our PayPal

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

business, we have provided an indemnity to our payment processors in the event of certain third-party claims or card association fines against the processor arising out of conduct by PayPal or PayPal customers. PayPal has also provided a limited indemnity to merchants using its retail point of sale payment services and to manufacturers of its point of sale devices (e.g., the PayPal Here devices and the Beacon device). In addition, Bill Me Later has provided indemnification provisions in its agreements with the chartered financial institutions that issue its credit products. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in our statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

Off-Balance Sheet Arrangements

As of March 31, 2015, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

We have various cash pooling arrangements with financial institutions for cash management purposes. These arrangements allow for cash withdrawals from these financial institutions based upon our aggregate operating cash balances held within the same financial institutions (“Aggregate Cash Deposits”). These arrangements also allow us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by these financial institutions as a basis for calculating our net interest expense or income under these arrangements. As of March 31, 2015, we had a total of $7.2 billion in cash withdrawals offsetting our $7.2 billion in Aggregate Cash Deposits held within these financial institutions under these cash pooling arrangements.

Note 10 — Stock Repurchase Programs

In January 2014, our board of directors authorized a stock repurchase program that provided for the repurchase of up to an additional $5 billion of our common stock, with no expiration from the date of authorization. In January 2015, our board of directors authorized an additional $2 billion stock repurchase program, with no expiration from the date of authorization. The stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic repurchases of our common stock to reduce our outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives.

Our stock repurchase programs may be limited or terminated at any time without prior notice. The timing and actual number of shares repurchased will depend on a variety of factors, including corporate and regulatory requirements, price and other market conditions and management's determination as to the appropriate use of our cash.

The stock repurchase activity under our stock repurchase programs during the three months ended March 31, 2015 is summarized as follows:

	Shares Repurchased	Average Price per Share [1]	Value of Shares Repurchased	Remaining Amount Authorized

	(In millions, except per share amounts)			
Balance as of January 1, 2015				$985
Authorization of additional plan in January 2015				2,000
Repurchase of shares of common stock	18	$56.95	1,000	(1,000)
Balance as of March 31, 2015				$1,985

(1) Stock repurchase activity excludes broker commissions.

As of March 31, 2015, a total of approximately $2.0 billion remained available for future repurchases of our common stock under our January 2015 stock repurchase program. These repurchased shares of common stock were recorded as treasury stock and were accounted for under the cost method. No repurchased shares of common stock have been retired.

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

Note 11 — Stock-Based Plans

Stock Option Activity

The following table summarizes stock option activity for the three months ended March 31, 2015:

	Options (In millions)
Outstanding as of January 1, 2015	10
Granted and assumed	—
Exercised	(2)
Forfeited/expired/canceled	—
Outstanding as of March 31, 2015	8

The weighted average exercise price of stock options granted during the period was $53.28 per share and the related weighted average grant date fair value was $13.16 per share.

Restricted Stock Unit Activity

The following table summarizes restricted stock unit ("RSU") activity for the three months ended March 31, 2015:

	Units (In millions)
Outstanding as of January 1, 2015	36
Awarded and assumed	1
Vested	(3)
Forfeited	(1)
Outstanding as of March 31, 2015	33

The weighted average grant date fair value for RSUs awarded during the period was $54.71 per share.

Stock-Based Compensation Expense

The impact on our results of operations of recording stock-based compensation expense for the three months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Cost of net revenues	$21	$17
Sales and marketing	47	42
Product development	58	51
General and administrative	59	39
Total stock-based compensation expense	$185	$149
Capitalized in product development	$4	$4

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

Stock Option Valuation Assumptions

We calculated the fair value of each stock option award on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
	2015		2014	
Risk-free interest rate	1.46	%	1.06	%
Expected life (in years)	4.4		3.9	
Dividend yield	—	%	—	%
Expected volatility	27	%	29	%

Our computation of expected volatility is based on a combination of historical and market-based implied volatility from traded options on our common stock. Our computation of expected life is based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Note 12 — Income Taxes

The following table reflects changes in unrecognized tax benefits for the three months ended March 31, 2015:

	(In millions)	
Gross amounts of unrecognized tax benefits as of January 1, 2015	$396	
Increases related to prior period tax positions	15	
Decreases related to prior period tax positions	(7	)
Increases related to current period tax positions	12	
Settlements	(2	)
Gross amounts of unrecognized tax benefits as of March 31, 2015	$414	

As of March 31, 2015, our liabilities for unrecognized tax benefits were included in accrued expenses and other current liabilities, deferred and other tax liabilities, net and as a reduction of the amount of deferred tax asset for tax credit carryforwards. The increase in liabilities for unrecognized tax benefits for the first three months of 2015 relates primarily to tax examination risks assessed during the period and transaction costs incurred in conjunction with the spin-off of PayPal.

We recognize interest and/or penalties related to uncertain tax positions in income tax expense. The amount of interest and penalties accrued as of March 31, 2015 and December 31, 2014 was approximately $78 million and $71 million, respectively.

We are subject to both direct and indirect taxation in the U.S. and various states and foreign jurisdictions. We are under examination by certain tax authorities for the 2003 to 2012 tax years. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these or other examinations. The material jurisdictions where we are subject to potential examination by tax authorities for certain tax years after 2002 include, among others, the U.S. (Federal and California), France, Germany, Italy, Korea, Israel, Switzerland, Singapore, United Kingdom and Canada.

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

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

Note 13 — Loans and Interest Receivable, Net

Loans and interest receivable primarily represent purchased consumer receivables arising from loans made by our partner chartered financial institutions to individual consumers to purchase goods and services using our PayPal Credit products. Although a chartered financial institution continues to own each respective customer account, we own the related consumer receivable and PayPal is responsible for all servicing functions related to the customer accounts. Effective August 2013, ownership of most of the existing customer accounts was transitioned from WebBank to a new chartered financial institution, Comenity Capital Bank. As part of the arrangement, we sell Comenity Capital Bank a participation interest in the entire pool of consumer receivables outstanding under the customer accounts. During the three months ended March 31, 2015 and 2014, we purchased approximately $1.4 billion and $1.1 billion, respectively, in consumer receivables. As of March 31, 2015, the total outstanding principal balance of this pool of consumer receivables was $3.6 billion, of which Comenity Capital Bank owned a participation interest of $169 million, or 4.63% of the total outstanding balance of the consumer receivables at that date. In April 2015, we concluded an arrangement with certain investors under which we have agreed to sell a participation interest in a portion of these consumer receivables. Comenity Capital Bank and these investors have no recourse against us related to their respective participation interests for failure of debtors to pay when due. The participation interest held by Comenity Capital Bank and these investors have the same priority to the interests held by us and are subject to the same credit, prepayment, and interest rate risk associated with the consumer receivables. As of March 31, 2015, we classified approximately $700 million of the consumer receivables related to the participation interest we agreed to sell to investors as held for sale. The consumer receivables held for sale are recorded at the lower of cost or fair value on an aggregate portfolio basis. No adjustment to the carrying value was recorded as a result of classifying these consumer receivables as held for sale.

Loans and interest receivable are reported at their outstanding principal balances, net of participation interest sold and pro-rata allowances, including unamortized deferred origination costs and estimated collectible interest and fees. We use a consumer's FICO score, among other measures, in evaluating the credit quality of our consumer receivables. A FICO score is a type of credit score that lenders use to assess an applicant's credit risk and whether to extend credit. Individual FICO scores generally are obtained each quarter the consumer has an outstanding consumer receivable owned by PayPal Credit. The weighted average consumer FICO score related to the pool of consumer receivables and interest receivable balance outstanding as of March 31, 2015 was 684 compared to 687 as of December 31, 2014. As of March 31, 2015 and December 31, 2014, approximately 52.4% and 54.2%, respectively, of the pool of consumer receivables and interest receivable balance was due from consumers with FICO scores greater than 680, which is generally considered "prime" by the consumer credit industry. As of March 31, 2015 and December 31, 2014, approximately 10.7% and 9.2%, respectively, of the pool of consumer receivables and interest receivable balance was due from customers with FICO scores below 599. As of March 31, 2015 and December 31, 2014, approximately 91% and 89%, respectively, of the portfolio of consumer receivables and interest receivable was current.

During 2013, we began working with a chartered financial institution, for the chartered financial institution to offer working capital loans to selected merchant sellers. We subsequently purchase the related merchant receivable from the chartered financial institution and, as a result, bear the risk of loss in the event the loan defaults. Under the program, participating merchants can borrow a certain percentage of their annual payment volume processed by PayPal and are charged a fixed fee for the loan. As of March 31, 2015, the total outstanding balance of this pool of merchant receivables was approximately $125 million.

The following table summarizes the activity in the allowance for loans and interest receivable, net of participating interest sold, for the periods indicated:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Balance as of January 1	$195	$146
Charge-offs	(92)	(70)
Recoveries	11	7
Provision	86	66
Balance as of March 31	$200	$149

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

Note 14 — Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2015:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total
	(In millions)				
Beginning balance	$168	$1,029	$334	$(360)	$1,171
Other comprehensive income before reclassifications	159	(23)	(265)	7	(122)
Amount of gain (loss) reclassified from accumulated other comprehensive income	70	(1)	—	—	69
Net current period other comprehensive income	89	(22)	(265)	7	(191)
Ending balance	$257	$1,007	$69	$(353)	$980

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2014:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total
	(In millions)				
Beginning balance	$(106)	$921	$657	$(316)	$1,156
Other comprehensive income before reclassifications	(6)	(90)	(29)	39	(86)
Amount of gain (loss) reclassified from accumulated other comprehensive income	(21)	7	—	—	(14)
Net current period other comprehensive income	15	(97)	(29)	39	(72)
Ending balance	$(91)	$824	$628	$(277)	$1,084

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

The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2015 and 2014:

Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Statement of Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	
		Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
		(In millions)	
Gains (losses) on cash flow hedges - foreign exchange contracts	Net Revenues	$50	$(17)
	Cost of net revenues	6	(1)
	Sales and marketing	1	—
	Product development	11	(2)
	General and administrative	2	(1)
	Total, before income taxes	70	(21)
	Provision for income taxes	—	—
	Total, net of income taxes	70	(21)
Unrealized gains on investments	Interest and other, net	(1)	7
	Total, before income taxes	(1)	7
	Provision for income taxes	—	—
	Total, net of income taxes	(1)	7
Total reclassifications for the period	Total, net of income taxes	$69	$(14)

Note 15 — Restructuring

In January 2015, at a regular meeting of our Board of Directors (the "Board"), the Board approved a plan to implement a strategic reduction of our existing global workforce. As a result, we are reducing our workforce globally. The reduction is expected to be substantially completed in the first half of 2015. The restructuring costs are aggregated in general and administrative expenses in the condensed consolidated statement of income.

The following table summarizes by segment the restructuring costs recognized during the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Employee Severance and Benefits	Other Associated Costs	Total	Employee Severance and Benefits	Other Associated Costs	Total
	(In millions)					
Marketplaces	$60	$—	$60	$—	$—	$—
Payments	48	—	48	—	—	—
Enterprise	6	5	11	—	—	—

Total restructuring	$114	$5	$119	$—	$—	$—

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

The following table summarizes the restructuring reserve activity during the three months ended March 31, 2015:

	Employee Severance and Benefits	Other Associated Costs	Total
	(In millions)		
Accrued liability as of January 1, 2015	$—	$—	$—
Charges (benefit)	114	5	119
Payments	(42)	(3)	(45)
Accrued liability as of March 31, 2015	$72	$2	$74

Note 16 — Subsequent Events

In April 2015, we concluded an arrangement with certain investors under which we have agreed to sell a participation interest of approximately $700 million in a portion of our purchased consumer receivables arising from loans made by our partner chartered financial institutions to individual consumers to purchase goods and services using our PayPal Credit products. This transaction, which is subject to customary closing conditions, is expected to close in the second quarter of 2015. The carrying value of such consumer receivables upon the funding of this participation interest may differ from the carrying value as of March 31, 2015 due to normal, ongoing payment and resolution activity.

In April 2015, we completed our acquisition of Paydiant, Inc. for approximately $285 million, consisting primarily of cash. The acquisition of Paydiant is intended to expand our capabilities in mobile payments. Using Paydiant's platform, our merchant partners can create their own branded wallets to accelerate mobile-in-store payments and drive consumer engagement through mobile payments, loyalty, offers and the prioritization of preferred payment types, such as store branded credit cards and gift cards. We are in the process of determining the purchase price allocation for this acquisition.

In April 2015, we completed our acquisition of CyActive Security, Ltd. CyActive is a cybersecurity firm that specializes in technology that predicts how malware will develop. The acquisition of CyActive is intended to further enhance our risk assessment capabilities used to protect merchants and consumers on our Payments Platform. We are in the process of determining the purchase price allocation for this acquisition.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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, the planned separation of our eBay and PayPal businesses into independent publicly traded companies, 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,” “plan” and ot 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 “Part II — Item 1A: Risk Factors” of this Quarterly Report on Form 10-Q as well as in our condensed 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.

You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report.

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.

Overview

We are a global technology company that enables commerce through three reportable segments: Marketplaces, Payments and Enterprise. Our Marketplaces segment includes our eBay.com platform and its localized counterparts and our other online platforms, such as our online classifieds sites and StubHub. Our Payments segment is comprised of our PayPal business. Our Enterprise segment includes our Magento business and provides commerce technologies, omnichannel operations and marketing solutions for merchants of all sizes that operate in general merchandise categories. In January 2015, we announced that we will be exploring strategic options for eBay Enterprise, including a possible sale or partial sale, or IPO.

On September 30, 2014, we announced that our Board of Directors, following a strategic review of our growth strategies and structure, has approved a plan to separate PayPal (consisting of our Payments segment) into an independent publicly traded company. We expect to complete the transaction as a tax-free spin-off in the second half of 2015, subject to market, regulatory, and certain other conditions. We also announced that Dan Schulman has been appointed as President of PayPal and CEO-designee of the standalone PayPal company following separation, and that Devin Wenig, currently president of eBay Marketplaces, will become CEO of eBay company following separation. We have also recently announced that, following the separation, we expect that Tom Tierney will become the Chairman of the Board of eBay Inc. and that John Donahoe will become the Chairman of the Board of PayPal Holdings, Inc. The separation is subject to risks, uncertainties and conditions and there can be no assurance that the separation will be completed on the terms or on the timing currently contemplated, or at all. Please see the information in “Item 1A: Risk Factors” under the heading “Risk Factors Related to the Planned Separation,” which describes some of the risks and uncertainties associated with the proposed separation.

We expect to incur significant costs in connection with our planned separation of our PayPal business. These costs relate primarily to third-party advisory and consulting services, retention payments to certain employees, incremental stock-based compensation and other costs directly related to the separation. Costs related to employees for retention or stock-based compensation are classified on a basis consistent with their regular compensation charges and included within cost of net revenues, sales and marketing, product development or general and administrative in our consolidated statement of income as applicable. Costs other than those paid to employees are included within general and administrative in our consolidated statement of income. During the three months ended March 31, 2015, we incurred approximately $87 million related to separation costs. We expect to continue to incur additional separation costs in 2015 until we complete the separation of our PayPal business. We currently estimate that such additional separation costs will exceed $135 million, although that estimate is subject to a number of assumptions and uncertainties.

Net revenues for the three months ended March 31, 2015 increased 4% to $4.4 billion compared to the same period of the prior year, driven primarily by increases in net revenues from our PayPal segment. For the three months ended March 31, 2015, our operating margin decreased to 16% from 21% in the same period of the prior year due to higher general and administrative costs and a greater proportion of our revenue being derived from our Payments segment, which has lower margins than our Marketplaces segment. For the three months ended March 31, 2015, our diluted earnings per share increased to $0.51, a $2.33 increase compared to the same period of the prior year, driven primarily by the accrual in 2014 of deferred taxes on $9.0 billion of undistributed foreign earnings for 2013 and prior years and, to a lesser extent, by growth in net revenues and a lower share count. For both the three months ended March 31, 2015 and 2014, we generated cash flow from operations of $1.2 billion.

Our Marketplaces segment total net revenues decreased $86 million, or 4%, for the three months ended March 31, 2015 compared to the same period of the prior year. Gross Merchandise Volume (GMV) (as defined below) decreased 2% for the three months ended March 31, 2015 compared to the same period of the prior year. The decrease in total net revenues and GMV was driven primarily by a negative impact from foreign currency movements relative to the U.S. dollar. Our Marketplaces segment operating margin decreased by 0.5 percentage points for the three months ended March 31, 2015 compared to the same period of the prior year, due primarily to continued investments in our site operations and business initiatives.

Our Payments segment total net revenues increased $263 million, or 14%, for the three months ended March 31, 2015 compared to the same period of the prior year. The increase in total net revenues was driven primarily by an increase in net total payment volume (Net TPV) (as defined below) of 18%. Our Payments segment operating margin decreased by 0.5 percentage points for the three months ended March 31, 2015 compared to the same period of the prior year due primarily to increased provision for transaction and loan losses partially offset by a favorable transaction expense rate.

Our Enterprise segment total net revenues increased $19 million, or 7%, for the three months ended March 31, 2015 compared to the same period of the prior year. The increase in total net revenues was driven primarily by an increase in Gross Merchandise Sales (as defined below) of 8% for the three months ended March 31, 2015 compared to the same period of the prior year. For the three months ended March 31, 2015, our Enterprise segment operating margin was consistent with the same period of the prior year.

We define GMV as the total value of all successfully closed transactions between users on Marketplaces platforms (excluding eBay's classifieds websites, brands4friends and Shopping.com) during the applicable period regardless of whether the buyer and seller actually consummated the transaction; excludes vehicles and real estate gross merchandise volume. We believe that GMV provides a useful measure of the overall volume of closed transactions that flow through our Marketplaces trading platforms in a given period, notwithstanding the inclusion in GMV of closed transactions that are not ultimately consummated. We define Net TPV as the total dollar volume of payments, net of payment reversals, successfully completed through our payments networks, including PayPal Credit, Venmo and payments processed through Braintree’s full stack payments platform during the period; excludes payments sent or received through PayPal's and Braintree's payment gateway businesses. We define Merchant Services Net TPV as the total dollar volume of payments, net of payment reversals, successfully completed through our payments networks, including PayPal Credit, Venmo and payments processed through Braintree's full stack payments platform, during the period; excludes PayPal's and Braintree's payment gateway businesses and payments for transactions on our Marketplaces platforms. We define On eBay Net TPV as the total dollar volume of payments, net of payment reversals, successfully completed through our payments networks, including PayPal Credit, during the period for transactions on our Marketplaces platforms. We define Gross Merchandise Sales as the retail value of all sales transactions, inclusive of freight charges and net of allowance for returns and discounts, which flow through our Enterprise commerce technologies, whether we record the full amount of such transaction as a product sale or a percentage of such transaction as a service fee; excludes volume transacted through the Magento platform. We define

ECV as the total Marketplaces GMV, Payments Merchant Services Net TPV and eBay Enterprise Gross Merchandise Sales not earned on eBay or paid for via PayPal or PayPal Credit during the period; it excludes volume transacted through the Magento platform.

Results of Operations

Summary of Net Revenues

We generate two types of net revenues: net transaction revenues and marketing services and other revenues. Our net transaction revenues are derived principally from listing fees and final value fees (which are fees payable on transactions closed on our Marketplaces platforms), fees paid by merchants for payment processing services and ecommerce service fees. Our marketing services revenues are derived principally from the sale of advertisements, revenue sharing arrangements, classifieds fees, marketing service fees and lead referral fees. Other revenues are derived principally from interest and fees earned on the PayPal Credit portfolio of receivables from loans, interest earned on certain PayPal customer account balances and fees from contractual arrangements with third parties that provide services to our users.
The following table sets forth the breakdown of net revenues by type and geography for the periods presented:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Net Revenues by Type:		
Net transaction revenues		
Marketplaces	$1,672	$1,727
Payments	1,940	1,700
Enterprise	224	208
Total net transaction revenues	3,836	3,635
Marketing services and other revenues		
Marketplaces	397	428
Payments	168	145
Enterprise	64	61
Total marketing services and other revenues	629	634
Elimination of inter-segment net revenue (1)	(17)	(7)
Total net revenues	$4,448	$4,262
Net Revenues by Geography:		
U.S.	$2,149	$1,998
International	2,299	2,264
Total net revenues	$4,448	$4,262

(1) Represents net revenue generated between our reportable segments.

Revenues are attributed to U.S. and international geographies based primarily upon the country in which the seller, payment recipient, customer, website that displays advertising, or other service provider, as the case may be, is located.

Because we generated a majority of our net revenues internationally in recent periods, including the three months ended March 31, 2015 and 2014, we are subject to the risks of doing business in foreign countries as discussed under "Part II - Item 1A - Risk Factors." In that regard, fluctuations in foreign currency exchange rates impact our results of operations. We have a foreign exchange risk management program that is designed to reduce our exposure to fluctuations in foreign currencies; however, the effectiveness of this program in mitigating the impact of foreign currency fluctuations on our results of operations varies from period to period, and in any given period our operating results are usually affected, sometimes significantly, by changes in currency exchange rates. Fluctuations in exchange rates also directly affect our cross-border revenue. We calculate the year-over-year impact of foreign currency movements on our business using prior period foreign currency rates applied to current year transactional currency amounts.

For the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by $234 million (inclusive of a positive impact of approximately $50 million from hedging activities included in Payments net revenue). On a business segment basis, for the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar negatively impacted Marketplaces, Payments, and Enterprise net revenues by approximately $152 million, $80 million, and $2 million, respectively (net of the positive impact of hedging activities noted above in the case of Payments net revenues).

The following table sets forth, for the periods presented, certain key operating metrics that we believe are significant factors affecting our net revenues:

	Three Months Ended March 31,		Percent
	2015	2014	Change
	(In millions, except percentage changes)		
Supplemental Operating Data:			
Marketplaces Segment: [1]			
GMV [2]	$20,195	$20,545	(2)%
Marketplaces Transaction Take Rate [3]	8.28%	8.41%	(0.13)%
Payments Segment:			
Merchant Services Net TPV [4]	$46,732	$37,162	26%
On eBay Net TPV [5]	$14,681	$14,844	(1)%
Net TPV [6]	$61,413	$52,006	18%
Payments Take Rate [7]	3.43%	3.55%	(0.12)%
Enterprise Segment:			
Gross Merchandise Sales [8]	$1,014	$936	8%
Enterprise Transaction Take Rate [9]	22.09%	22.22%	(0.13)%

(1) eBay's classifieds websites, brands4friends and Shopping.com are not included in these metrics.

(2) Total value of all successfully closed transactions between users on Marketplaces platforms during the applicable period regardless of whether the buyer and seller actually consummated the transaction; excludes vehicles and real estate gross merchandise volume.

(3) Total net transaction revenues earned through our Marketplaces segment, divided by Gross Merchandise Volume.

(4) Total dollar volume of payments, net of payment reversals, successfully completed through our payments networks, including PayPal Credit, Venmo and payments processed through Braintree's full stack payments platform, during the period; excludes PayPal's and Braintree's payment gateway businesses and payments for transactions on our Marketplaces platforms.

(5) Total dollar volume of payments, net of payment reversals, successfully completed through our payments networks, including PayPal Credit, during the period for transactions on our Marketplaces platforms.

(6) Total dollar volume of payments, net of payment reversals, successfully completed through our payments networks, including PayPal Credit, Venmo and payments processed through Braintree’s full stack payments platform during the period; excludes payments sent or received through PayPal's and Braintree’s payment gateway businesses.

(7) Total net revenues earned through our payments networks, including PayPal Credit, Braintree, Venmo, PayPal’s payment gateway business, subscription fees and other net revenues, divided by Net TPV.

(8) Represents the retail value of all sales transactions, inclusive of freight charges and net of allowance for returns and discounts, which flow through our Enterprise commerce technologies, whether we record the full amount of such transaction as a product sale or a percentage of such transaction as a service fee; excludes volume transacted through the Magento platform.

(9) Total net transaction revenues earned through our Enterprise segment, divided by Gross Merchandise Sales.

Seasonality

The following table sets forth, for the periods presented, our total net revenues and the sequential quarterly movements of these net revenues:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In millions, except percentage changes)			
2013				
Net revenues	$3,748	$3,877	$3,892	$4,530
Percent change from prior quarter	(6)%	3 %	0 %	16 %
2014				
Net revenues	$4,262	$4,366	$4,353	$4,921
Percent change from prior quarter	(6)%	2 %	0 %	13 %
2015				
Net revenues	$4,448	—	—	—
Percent change from prior quarter	(10)%	— %	— %	— %

We expect transaction activity patterns on our websites to mirror general consumer buying patterns. Our Enterprise segment is highly seasonal. The fourth calendar quarter typically accounts for a disproportionate amount of Enterprise's total annual revenues because consumers increase their purchases and businesses increase their advertising to consumers in the fourth quarter holiday season. We expect that these trends will continue.

Marketplaces Net Transaction Revenues

Marketplaces net transaction revenues decreased $55 million, or 3%, while GMV decreased 2% during the three months ended March 31, 2015 compared to the same period in the prior year. The decrease in total net transaction revenues and GMV was driven primarily by a negative impact from foreign currency movements relative to the U.S. dollar. The Marketplaces transaction take rate was lower during the three months ended March 31, 2015 compared to the same period in the prior year due to a shift in geographical and vertical mix to transactions with a lower take rate.

Marketplaces net transaction revenues earned internationally totaled $923 million and $995 million during the three months ended March 31, 2015 and 2014, respectively, representing 55% and 58% of total Marketplaces net transaction revenues during those respective periods.

Payments Net Transaction Revenues

Payments net transaction revenues increased $240 million, or 14%, during the three months ended March 31, 2015 compared to the same period of the prior year, due primarily to an increase in Net TPV of 18%. The growth in Payments net transaction revenues was lower than the growth in Net TPV due to a lower take rate. The increase in Net TPV was due primarily to growth in consumer and merchant use of PayPal and growth in volume through our Braintree products. The lower take rate was due primarily to a higher portion of Merchant Services volume. Merchant Services volume includes a higher concentration of Net TPV from larger merchants who generate higher volume at lower take rates. Additionally, Merchant Services volume includes Net TPV generated through our unbranded products such as Braintree where we generally earn lower take rates. We expect the concentration of Merchant Services volume to continue to increase. Our Merchant Services Net TPV increased 26% during the three months ended March 31, 2015 compared to the same period of the prior year, and represented 76% of PayPal's Net TPV for the three months ended March 31, 2015 compared to 71% in the same period of the prior year. On eBay Net TPV decreased 1% during the three months ended March 31, 2015 compared to the same period of the prior year, and represented 24% of PayPal's Net TPV for the three months ended March 31, 2015 compared to 29% in the same period of the prior year.

Payments net transaction revenues earned internationally totaled $1.1 billion and $950 million during the three months ended March 31, 2015 and 2014, respectively, representing 56% of total Payments net transaction revenues during those respective periods.

Enterprise Net Transaction Revenues

Enterprise net transaction revenues increased $16 million, or 8%, during the three months ended March 31, 2015 compared to the same period of the prior year, due primarily to an 8% increase in Gross Merchandise Sales.

Marketing Services and Other Revenues

Marketing services and other revenues decreased $5 million, or 1%, during the three months ended March 31, 2015 compared to the same period of the prior year, and represented 14% and 15% of total net revenues during those respective periods. The decrease was driven primarily by a negative impact from foreign currency movements relative to the U.S. dollar. The decrease was offset by an increase due primarily to growth in our PayPal Credit portfolio of receivables from loans, as well as increased revenue from advertising.

Summary of Cost of Net Revenues

The following table summarizes changes in cost of net revenues for the periods presented:

	Three Months Ended March 31,		Change from 2014 to 2015	
	2015	2014	in Dollars	in %
	(In millions, except percentages)			
Cost of net revenues:				
Marketplaces	$419	$404	$15	4 %
As a percentage of total Marketplaces net revenues	20.3 %	18.7 %		
Payments	820	744	76	10 %
As a percentage of total Payments net revenues	38.9 %	40.3 %		
Enterprise	211	200	11	6 %
As a percentage of total Enterprise net revenues	73.3 %	74.3 %		
Corporate and other	—	3	(3)	(100)%
Total cost of net revenues	$1,450	$1,351	$99	7 %
As a percentage of net revenues	32.6 %	31.7 %		

Cost of net revenues consists primarily of costs associated with payment processing, customer support, site operations, and fulfillment. Significant components of these costs include bank transaction fees, credit card interchange and assessment fees, interest expense on indebtedness incurred to finance the purchase of consumer loan receivables related to PayPal Credit accounts, employee compensation, contractor costs, facilities costs, depreciation of equipment and amortization expense.

For the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar positively impacted cost of net revenues by $60 million (inclusive of a positive impact of approximately $6 million from hedging activities). For the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar positively impacted Marketplaces, Payments, and Enterprise cost of net revenues by approximately $24 million, $40 million, and $2 million, respectively, and negatively impacted Corporate and other by $6 million.

Marketplaces

Marketplaces cost of net revenues increased $15 million, or 4%, during the three months ended March 31, 2015, compared to the same period of the prior year. The increase was due primarily to continued investment in our site operations and data centers. Marketplaces cost of net revenues as a percentage of Marketplaces net revenues increased by 1.6 percentage points during the three months ended March 31, 2015, compared to the same period in the prior year.

Payments

Payments cost of net revenues increased $76 million or 10%, during the three months ended March 31, 2015, compared to the same period of the prior year. The increase was due primarily to the impact of growth in Net TPV offset in part by favorable transaction expense rates. Payments cost of net revenues as a percentage of Payments net revenues decreased by 1.4 percentage points during the three months ended March 31, 2015, compared to the same period in the prior year.

Enterprise

Enterprise cost of net revenues increased $11 million or 6%, during the three months ended March 31, 2015, compared to the same period of the prior year. This increase was due primarily to the increase in Gross Merchandise Sales. Enterprise cost of net revenues as a percentage of Enterprise net revenues decreased by 1.0 percentage points during the three months ended March 31, 2015, compared to the same period in the prior year.

Summary of Operating Expenses, Non-Operating Items and Provision for Income Taxes

The following table summarizes changes in operating expenses, non-operating items and provision for income taxes for the periods presented:

	Three Months Ended March 31,		Change from 2014 to 2015	
	2015	2014	in Dollars	in %
	(In millions, except percentage changes)			
Sales and marketing	$794	$805	(11)	(1)%
Product development	485	480	5	1%
General and administrative	665	465	200	43%
Provision for transaction and loan losses	264	204	60	29%
Amortization of acquired intangible assets	58	79	(21)	(27)%
Interest and other, net	8	(5)	13	(260)%
Provision for income taxes	(114)	(3,199)	3,085	(96)%

The following table summarizes operating expenses, non-operating items and provision for income taxes as a percentage of net revenues for the periods presented:

	Three Months Ended March 31,	
	2015	2014
Sales and marketing	18%	19%
Product development	11%	11%
General and administrative	15%	11%
Provision for transaction and loan losses	6%	5%
Amortization of acquired intangible assets	1%	2%
Interest and other, net	—%	—%
Provision for income taxes	3%	75%

For the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar positively impacted operating expenses by $98 million (inclusive of a positive impact of approximately $14 million from hedging activities). For the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar positively impacted Marketplaces, Payments, and Enterprise operating expenses by approximately $61 million, $34 million, and $3 million, respectively.

Sales and Marketing

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

Sales and marketing expenses decreased $11 million, or 1%, during the three months ended March 31, 2015 compared to the same period of the prior year. The decrease in sales and marketing expense was due primarily to the impact from foreign currency movements relative to the U.S. dollar. Sales and marketing expense as a percentage of net revenues was 18% and 19%, respectively, for the three months ended March 31, 2015 and 2014.

Product Development

Product development expenses consist primarily of employee compensation, contractor costs, facilities costs and depreciation on equipment. Product development expenses are net of required capitalization of major site and other product development efforts, including the development of our next generation platform architecture, migration of certain platforms, seller tools and Payments services projects. Our top technology priorities include mobile, user experience, search, platform and products.

Capitalized internal use and website development costs were $96 million in the three months ended March 31, 2015 compared to $80 million in the three months ended March 31, 2014 and are primarily reflected as a cost of net revenues when amortized in future periods.

Product development expenses increased $5 million, or 1%, during the three months ended March 31, 2015 compared to the same period of the prior year due primarily to higher employee-related costs. Product development expenses as a percentage of net revenues were 11% for the three months ended March 31, 2015 and 2014.

General and Administrative

General and administrative expenses consist primarily of employee compensation, contractor costs, facilities costs, depreciation of equipment, employer payroll taxes on stock-based compensation, legal expenses, restructuring, insurance premiums and professional fees. Our legal expenses, including those related to various ongoing legal proceedings, may fluctuate substantially from period to period.

General and administrative expenses increased $200 million, or 43%, during the three months ended March 31, 2015 compared to the same period of the prior year. The increase was due primarily to restructuring costs related to our global workforce reduction and costs related to our planned separation of our PayPal business (as discussed in Overview above). In January 2015, at a regular meeting of our Board of Directors (the “Board”), the Board approved a plan to implement a strategic reduction of our existing global workforce. As a result, we are reducing our workforce globally. The reduction is expected to be substantially completed in the first half of 2015. See “Note 15 - Restructuring” to the condensed consolidated financial statements included in this report. General and administrative expenses as a percentage of net revenues were 15% and 11% for the three months ended March 31, 2015 and 2014, respectively.

Provision for Transaction and Loan Losses

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

Provision for transaction and loan losses increased $60 million, or 29%, during the three months ended March 31, 2015 compared to the same period of the prior year. Provision for transaction and loan losses as a percentage of net revenues was 6% and 5% for the three months ended March 31, 2015 and 2014, respectively.

Marketplaces provision for transaction losses increased by $6 million, or 10%, during the three months ended March 31, 2015, compared to the same period of the prior year. This increase was driven primarily by changes in our buyer protection programs, partially offset by improvements in bad debt rates.

Payments provision for transaction and loan losses increased by $48 million, or 34%, during the three months ended March 31, 2015 compared to the same period of the prior year. This increase was due primarily to higher transaction volume. The increase was also due to growth in our PayPal Credit portfolio of receivables from consumer loans. Modifications to our PayPal Credit acceptable risk parameters did not have a material impact on our provision for loan losses.

Amortization of Acquired Intangible Assets
From time to time we have purchased, and we expect to continue to purchase, assets and businesses. These purchase transactions generally result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in periods subsequent to acquisition. We amortize intangible assets over the period of estimated benefit, using the straight-line method and estimated useful lives ranging from one to eight years. Amortization of acquired intangible assets is also impacted by our sales of assets and businesses and timing of acquired intangible assets becoming fully amortized. See "Note 3 - Goodwill and Intangible Assets" to our condensed consolidated financial statements included in this report.

Amortization of acquired intangible assets decreased by $21 million, or 27%, during the three months ended March 31, 2015 compared to the same period of the prior year. The decrease was due to certain intangible assets becoming fully amortized during 2014.

Interest and Other, Net

Interest and other, net consists primarily of interest earned on cash, cash equivalents and investments, as well as foreign exchange transaction gains and losses, our portion of operating results from investments accounted for under the equity method of accounting, investment gain/loss on acquisitions and interest expense, consisting of interest charges on any amounts borrowed and commitment fees on unborrowed amounts under our credit agreement and interest expense on our outstanding debt securities and commercial paper, if any. Interest and other, net excludes interest expense on borrowings incurred to finance PayPal Credit's portfolio of loan receivables, which is included in cost of net revenues.

Interest and other, net increased $13 million during the three months ended March 31, 2015 compared to the same period of the prior year. The increase in interest and other, net was due primarily to a favorable impact from foreign currency activity.

Provision for Income Taxes

Our effective tax rate was 15.4% for the three months ended March 31, 2015 compared to 366.4% for the same period in the prior year. The decrease in our effective tax rate for the three months ended March 31, 2015 compared to the same period of the prior year was due primarily to the prior year accrual of U.S. income and applicable foreign taxes on $9 billion of undistributed foreign earnings for 2013 and prior years which were no longer considered indefinitely reinvested. Without this accrual, our effective tax rate for the three months ended March 31, 2014 would have been 18.3%. The 2.9 percentage point decrease in our effective tax rate for the three months ended March 31, 2015 compared to our effective tax rate (excluding the foregoing accrual) for the same period in the prior year was due primarily to changes in the mix of earnings and discrete items.

From time to time, we engage in certain intercompany transactions and legal entity restructurings. We consider many factors when evaluating these transactions, including the alignment of our corporate structure with our organizational objectives and the operational and tax efficiency of our corporate structure, as well as the long-term cash flows and cash needs of our different businesses. These transactions may impact our overall tax rate and/or result in additional cash tax payments. The impact in any period may be significant. These transactions may be complex and the impact of such transactions on future periods may be difficult to estimate.

We are regularly under examination by tax authorities both domestically and internationally. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations, although we can provide no assurances that this will be the case given the inherent uncertainties in these examinations. Due to the ongoing tax examinations, we believe it is impractical to determine the amount and timing of these adjustments.

Liquidity and Capital Resources

Cash Flows

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Net cash provided by (used in):		
Operating activities	$1,151	$1,174
Investing activities	(724)	532
Financing activities	(985)	(1,793)
Effect of exchange rates on cash and cash equivalents	(297)	8
Net increase/(decrease) in cash and cash equivalents	$(855)	$(79)

Operating Activities

The net cash provided by operating activities of $1.2 billion in the three months ended March 31, 2015 was due primarily to net income of $626 million with adjustments of $381 million in depreciation and amortization, $264 million in provision for transaction and loan losses and $185 million in stock-based compensation and a decrease of $87 million in deferred income taxes and $218 million in changes in assets and liabilities, net of acquisition effects.

The net cash provided by operating activities of $1.2 billion in the three months ended March 31, 2014 was due primarily to net loss of $2.3 billion with adjustments of $382 million in depreciation and amortization, $204 million in provision for transaction and loan losses, $149 million in stock-based compensation and $3.1 billion in deferred income taxes and a decrease of $343 million in changes in assets and liabilities, net of acquisition effects.

Investing Activities

The net cash used in investing activities of $724 million in the three months ended March 31, 2015 was due primarily to cash paid for purchases of investments of $2.4 billion and purchases of property and equipment of $322 million, partially offset by proceeds of $2.0 billion from the maturities and sale of investments.

The net cash provided by investing activities of $532 million in the three months ended March 31, 2014 was due primarily to proceeds of $2.0 billion from the maturities and sale of investments, partially offset by cash paid for the purchases of investments of $1.3 billion and purchases of property and equipment of $206 million.

Financing Activities

The net cash used in financing activities of $985 million in the three months ended March 31, 2015 was due primarily to cash outflows of $1.0 billion to repurchase common stock and cash paid for tax withholdings in the amount of $51 million related to net share settlements of restricted stock units and awards. These cash outflows were partially offset by cash inflows of $38 million from the issuance of common stock in connection with the exercise of stock options and the effect of $28 million of excess tax benefits from stock-based compensation.

The net cash used in financing activities of $1.8 billion in the three months ended March 31, 2014 was due primarily to cash outflows of $1.8 billion to repurchase common stock and cash paid for tax withholdings in the amount of $104 million related to net share settlements of restricted stock units and awards. These cash outflows were partially offset by cash inflows of $55 million from the issuance of common stock in connection with the exercise of stock options and the effect of $60 million of excess tax benefits from stock-based compensation.

The negative effect of exchange rate movements on cash and cash equivalents during the three months ended March 31, 2015 was due to the strengthening of the U.S. dollar against other currencies, primarily the Euro.

Stock Repurchases

In January 2014, our Board authorized a stock repurchase program that provided for the repurchase of up to an additional $5 billion of our common stock, with no expiration from the date of authorization. In January 2015, our Board authorized an additional $2 billion stock repurchase program, with no expiration from the date of authorization. The stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic repurchases of our common stock to reduce outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives.

During the three months ended March 31, 2015, we repurchased approximately $1.0 billion of our common stock under our stock repurchase programs. As of March 31, 2015, a total of approximately $2.0 billion remained available for future repurchases of our common stock under our January 2015 repurchase program.

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

Shelf Registration Statement and Long-Term Debt

At March 31, 2015, we had an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue various types of debt securities, as well as common stock, preferred stock, warrants, depositary shares representing fractional interest in shares of preferred stock, purchase contracts and units from time to time in one or more offerings. Each issuance under the shelf registration statement will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. The registration statement does not limit the amount of securities that may be issued thereunder. Our ability to issue securities is subject to market conditions and other factors including, in the case of our debt securities, our credit ratings and compliance with the covenants in our credit agreement.

In July 2014, we issued $3.5 billion of senior unsecured notes, or senior notes, in an underwritten public offering. These senior notes remain outstanding and consist of $450 million aggregate principal amount of floating rate notes due 2017, $400 million aggregate principal amount of floating rate notes due 2019, $1.15 billion aggregate principal amount of 2.2% notes due 2019, $750 million aggregate principal amount of 2.875% notes due 2021 and $750 million aggregate principal amount of 3.45% notes due 2024. The net proceeds from the sale of these senior notes were used for general corporate purposes, including, among other things, the repayment of outstanding commercial paper borrowings.

To help achieve our interest rate risk management objectives, in connection with the July 2014 issuance of senior unsecured notes, we entered into interest rate swap agreements that effectively converted $2.4 billion of those fixed rate notes to floating rate debt based on the London InterBank Offered Rate (LIBOR) plus a spread. These swaps were designated as fair value hedges against changes in the fair value of certain fixed rate senior notes resulting from changes in interest rates.

We previously issued senior notes in underwritten public offerings under prior registration statements, of which $250 million aggregate principal amount of 0.70% notes due 2015, $1.0 billion aggregate principal amount of 1.35% notes due 2017, $1.0 billion aggregate principal amount of 2.60% notes due 2022, $750 million aggregate principal amount of 4.00% notes due 2042, $600 million aggregate principal amount of 1.625% notes due 2015 and $500 million aggregate principal amount of 3.250% notes due 2020 remained outstanding as of March 31, 2015.

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

Commercial Paper

We have a $2 billion commercial paper program pursuant to which we may issue commercial paper notes with maturities of up to 397 days from the date of issue in an aggregate principal amount of up to $2 billion at any time outstanding. As of March 31, 2015, there were no commercial paper notes outstanding. We have in the past used proceeds from the issuance of commercial paper notes for general corporate purposes, including funding share repurchases. We may elect, subject to market conditions, to issue additional commercial paper notes from time to time in the future.

Credit Agreement

As of March 31, 2015, no borrowings or letters of credit were outstanding under our $3 billion credit agreement. As described above, we have an up to $2 billion commercial paper program and maintain $2 billion of available borrowing capacity under our credit agreement in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they become due. As a result, at March 31, 2015, $1 billion of borrowing capacity was available for other purposes permitted by the credit agreement. The credit agreement contains customary representations, warranties, affirmative and negative covenants, including a financial covenant, events of default and indemnification provisions in favor of the banks. The negative covenants include restrictions regarding the incurrence of liens, subject to certain exceptions. The financial covenant requires us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio.

Other Indebtedness

In addition to the debt described above, as of March 31, 2015, we had $18 million of borrowings outstanding under our overdraft facilities.

We were in compliance with all covenants in our outstanding debt instruments for the three-month period ended March 31, 2015.

Credit Ratings

As of January 1, 2014, our long-term debt and short-term funding were rated investment grade by Standard and Poor's Financial Services, LLC (long-term rated A, short-term rated A-1, with a stable outlook), Moody's Investor Service (long-term rated A2, short-term rated P-1, with a stable outlook), and Fitch Ratings, Inc. (long-term rated A, short-term rated F1, with a stable outlook). Following the September 2014 announcement of our planned separation of our PayPal business, Standard and Poor's Financial Services, LLC and Moody's Investor Service placed our long-term debt and short-term funding ratings under review with negative implications, while Fitch Ratings, Inc. downgraded our long-term debt from A to A- and short-term funding from F1 to F2, retaining our investment grade status, and placed the long-term rating under review with negative implications. As of April 1, 2015, Fitch Ratings, Inc. affirmed the short-term funding rating at F2. We did not experience any material operational, funding, or liquidity impacts from this rating downgrade. We expect that these credit rating agencies will continue to monitor developments in our planned separation of PayPal, including the capital structure for each company after separation, which could result in additional downgrades.

Our borrowing costs depend, in part, on our credit ratings and because downgrades would likely increase our borrowing costs we disclose these ratings to enhance the understanding of the effects of our ratings on our costs of funds. In addition, to assist PayPal in our planned separation we are currently working with credit rating agencies to obtain separate credit ratings for PayPal and we believe that immediately following separation both eBay and PayPal will be rated investment grade.

Commitments

As of March 31, 2015, approximately $21.5 billion of unused credit was available to PayPal Credit accountholders. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit accountholders will access their entire available credit at any given point in time. In addition, the individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institutions that are the issuers of PayPal Credit products based on, among other things, account usage and customer creditworthiness. When a consumer makes a purchase using a PayPal Credit product, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the consumer receivables related to the consumer loans and as a result of that purchase, bear the risk of loss in the event of loan defaults. However, we subsequently sell a participation interest in the entire pool of consumer loans to the chartered financial institution that extended the consumer loans. Although the chartered financial institution continues to own the customer accounts, we own and bear the risk of loss on the related consumer receivables, less the participation interest held by the chartered financial institution, and PayPal Credit is responsible for all servicing functions related to the customer account balances. As of March 31, 2015, the total outstanding principal balance on this pool of consumer loans was $3.6 billion, of which the chartered financial institution owned a participation interest of $169 million, or 4.63% of the total outstanding balance of the consumer loans as of that date.

Liquidity and Capital Resource Requirements

As of March 31, 2015 and December 31, 2014, we had assets classified as cash and cash equivalents, as well as short-term and long-term non-equity investments, in an aggregate amount of $14.1 billion and $14.6 billion, respectively. As of March 31, 2015, $10.0 billion of our cash and cash equivalents, as well as short-term and long-term non-equity investments, was held by our non-U.S. subsidiaries. Of the $10.0 billion held by our non-U.S. subsidiaries, approximately $8.0 billion was available for use in the U.S. without incurring additional U.S. income taxes in excess of the amounts already accrued in our financial statements as of March 31, 2015. The remaining amount of non-U.S. cash and cash equivalents, as well as short-term and long-term non-equity investments, have been indefinitely reinvested and, therefore, no U.S. current or deferred taxes have been accrued as this amount is necessary to support our planned ongoing investments in our foreign operations. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S., and we do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the U.S. Under current tax laws, should our plans change and we were to choose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., such amounts would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

In connection with our planned separation of PayPal, we are reviewing our capital allocation strategy to ensure that each of PayPal and eBay will be well capitalized at separation. As part of this strategy, we expect to contribute approximately $3.5 billion of cash to PayPal prior to separation. This contribution is expected to consist of both domestic and international cash, but no final decision has been made regarding the amount of the contribution or its allocation between domestic and international sources.

We actively monitor all counterparties that hold our cash and cash equivalents and non-equity investments, focusing primarily on the safety of principal and secondarily on improving yield on these assets. We diversify our cash and cash equivalents and investments among various counterparties in order to reduce our exposure should any one of these counterparties fail or encounter difficulties. To date, we have not experienced any material loss or lack of access to our invested cash, cash equivalents or short-term investments; however, we can provide no assurances that access to our invested cash, cash equivalents or short-term investments will not be impacted by adverse conditions in the financial markets. At any point in time we have funds in our operating accounts and customer accounts that are deposited and invested with third party financial institutions.

We currently fund the expansion of the PayPal Credit portfolio of loan receivables with domestic and international cash resources and borrowings. To the extent that our PayPal Credit or other credit products become more widely available through improved and more comprehensive product integrations with eBay, PayPal and other channels, and as we further promote PayPal Credit or other credit products, customer adoption and usage of such products may expand. Any resulting growth in the portfolio of PayPal Credit or other loan receivables would increase our liquidity needs and any failure to meet those liquidity needs could adversely affect the PayPal Credit products. In April 2015, we concluded an arrangement with certain investors under which we have agreed to sell a participation interest of approximately $700 million in a portion of our purchased consumer receivables arising from loans made by our partner chartered financial institutions to individual consumers to purchase goods and services using our PayPal Credit products. This transaction, which is subject to customary closing conditions, is expected to close in the second quarter of 2015. We will continue to consider alternative sources of funding of our credit portfolio through our strategic and financial partners.

In June 2014, we agreed, subject to certain conditions, that PayPal, one of its affiliates or a third party partner will purchase a portfolio of consumer loan receivables relating to the customer accounts arising out of our current credit program agreement with Synchrony (formerly GE Capital Retail Bank) for a price based on the book value of the consumer loan receivables portfolio at the time of the purchase (expected to be October 2016), subject to certain adjustments and exclusions. As of December 31, 2014, Synchrony had a net receivables portfolio under the credit program agreement of approximately $1.5 billion.

We believe that our existing cash, cash equivalents and short-term and long-term investments, together with cash expected to be generated from operations, borrowings available under our credit agreement and commercial paper program, and our access to capital markets, will be sufficient to fund our operating activities, anticipated capital expenditures, PayPal Credit portfolio of loan receivables and stock repurchases for the foreseeable future.

Off-Balance Sheet Arrangements

As of March 31, 2015, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

We have various cash pooling arrangements with financial institutions for cash management purposes. These arrangements allow for cash withdrawals from these financial institutions based upon our aggregate operating cash balances held within the same financial institution (“Aggregate Cash Deposits”). These arrangements also allow us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by these financial institutions as a basis for calculating our net interest expense or income under these arrangements. As of March 31, 2015, we had a total of $7.2 billion in cash withdrawals offsetting our $7.2 billion in Aggregate Cash Deposits held within these financial institutions under these cash pooling arrangements.

Indemnification Provisions

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain cases, we have agreed to provide indemnification for intellectual property infringement. Our Enterprise business has provided in many of its major ecommerce agreements an indemnity for other types of third-party claims, which are indemnities mainly related to various intellectual property rights, and we have provided similar indemnities in a limited number of agreements for our other businesses, including our Magento business. In our PayPal business, we have provided an indemnity to our payment processors in the event of certain third-party claims or card association fines against the processor arising out of conduct by PayPal or PayPal customers. PayPal has also provided a limited indemnity to merchants using its retail point of sale payment services and to manufacturers of its point of sale devices (e.g., the PayPal Here devices and the Beacon device). In addition, Bill Me Later has provided indemnification provisions in its agreements with the chartered financial institutions that issue its credit products. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in our consolidated statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

Critical Accounting Policies, Judgments and Estimates

General

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Refer to the critical accounting policies, judgments and estimates under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, where we discuss additional significant judgments and estimates used in the preparation of the condensed consolidated financial statements.

Goodwill and Intangible Assets

The purchase price of an acquired company is allocated between intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. The determination of the value of the intangible assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital.

At March 31, 2015, our goodwill totaled $9.0 billion and our identifiable intangible assets, net totaled $481 million. We assess the impairment of goodwill of our reporting units annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using market and discounted cash flow approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. The market approach uses comparable company information to determine revenue and earnings multiples to value our reporting units. Failure to achieve these expected results or market multiples may cause a future impairment of goodwill at the reporting unit.

We conducted our annual impairment test of goodwill as of August 31, 2014 and 2013. In January 2015, we announced that we will be exploring strategic options for our eBay Enterprise business, including a possible sale or partial sale, or IPO. In connection with the process of exploring strategic options, we developed an updated forecast for our eBay Enterprise business which indicated lower results than our prior forecast developed in 2014. As a result of the decline in forecasted results at our eBay Enterprise business, we assessed the business for potential impairment of goodwill at the reporting unit level, as of March 31, 2015. The fair value of eBay Enterprise was estimated using the discounted cash flow approach based on the expected future operating results from the latest forecast prepared in the quarter ended March 31, 2015. The results of the interim impairment assessment as of March 31, 2015, indicate eBay Enterprise's fair value exceeded its carrying value by approximately 8%.

Among our reporting units, the fair value of eBay Enterprise is the closest to its carrying value and is most sensitive to changes in assumptions. We continue to explore strategic options and have made no decisions regarding what option we intend to pursue and have not committed to any particular plan. If the expected fair value received in a disposition of our eBay Enterprise business is less than its carrying value, a Goodwill impairment charge will be realized. See "Note 3 - Goodwill and Intangible Assets" to the consolidated financial statements included in this report.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended December 31, 2014. Our market risk profile has not changed significantly during the first three months of 2015.

Interest Rate Risk

We are exposed to interest rate risk relating to our investment portfolio and our outstanding debt. We seek to reduce earnings volatility that may result from changes in interest rates.

As of March 31, 2015, approximately 36% of our total cash and investment portfolio was held in cash and cash equivalents. As such, changes in interest rates will impact interest income. As discussed below, fixed rate securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates.

As of December 31, 2013, 100% of the outstanding senior notes issued under our shelf registration statements bore interest at fixed rates. In July 2014, we issued additional senior notes in an aggregate principal amount of $3.5 billion comprised of $850 million of floating rate notes and $2.65 billion of fixed rate notes, as described in the "Shelf Registration Statement and Long-Term Debt" section of Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2) in this Quarterly Report. In order to reduce volatility that may result from changes in interest rates, we entered into $2.4 billion of interest rate swap agreements that have the economic effect of modifying the fixed interest obligations associated with $1.15 billion of our 2.2% senior notes due July 2019, $750 million of our 2.875% senior notes due July 2021, and $500 million of our 3.450% senior notes due July 2024 so that the interest payable on those notes effectively became variable based on LIBOR plus a spread. Further changes in interest rates will impact interest expense on any borrowings under our revolving credit facility, which bear interest at floating rates, and the interest rate on any commercial paper borrowings we make and any debt securities we may issue in the future and, accordingly, will impact interest expense or cost of net revenues (or both).

As of March 31, 2015, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate investment securities may be adversely impacted due to a rise in interest rates. In general, fixed-rate securities with longer maturities are subject to greater interest-rate risk than those with shorter maturities. While floating-rate securities generally are subject to less interest rate risk than fixed-rate securities, floating-rate securities may produce less income than expected if interest rates decrease and may also suffer a decline in market value if interest rates increase. Due in part to these factors, our investment income may fall short of expectations or we may suffer losses in principal if we sell securities that have declined in market value due to changes in interest rates. As of March 31, 2015, the balance of our government bond and corporate debt securities portfolio was $8.5 billion, which represented approximately 56% of our total cash and investment portfolio.

Investment Risk

The primary objective of our investment activities is to preserve principal while at the same time improving yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of asset types, including bank deposits, money market funds, government bonds and corporate debt securities.

As of March 31, 2015, our cost and equity method investments totaled $215 million, which represented approximately 1% of our total cash and investment portfolio, and were primarily related to equity method investments in privately held companies. We review our investments for impairment when events and circumstances indicate a decline in fair value of such assets below carrying value is other-than-temporary. Our analysis includes a review of recent operating results and trends, recent sales/acquisitions of the securities in which we have invested and other publicly available data.

Equity Price Risk

We are exposed to equity price risk on marketable equity instruments due to market volatility. As of March 31, 2015, the total fair value of our marketable equity instruments (primarily related to our equity holdings in MercadoLibre) was $996 million, which represented approximately 6% of our total cash and investment portfolio.

Foreign Currency Risk

We have significant operations internationally that are denominated in foreign currencies, primarily the Euro, British Pound, Korean Won and Australian Dollar, subjecting us to foreign currency risk which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues as well as costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services provided by eBay and by PayPal. Our cash flow, results of operations and certain of our intercompany balances that are exposed to foreign exchange rate fluctuations may differ materially from expectations and we may record significant gains or losses due to foreign currency fluctuations and related hedging activities.

We have a foreign exchange exposure management program designed to identify material foreign currency exposures, manage these exposures and reduce the potential effects of currency fluctuations on our reported consolidated cash flows and results of operations through the purchase of foreign currency exchange contracts. These foreign currency exchange contracts are accounted for as derivative instruments; for additional details related to our derivative instruments, please see “Note 7 – Derivative Instruments” to the condensed consolidated financial statements included in this report.

European Debt Exposures

We actively monitor our exposure to the European markets, including the impact of sovereign debt issues associated with Cyprus, Greece, Ireland, Italy, Portugal and Spain. As of March 31, 2015, we did not have any direct investments in the sovereign debt of these countries or in debt securities issued by corporations or financial institutions organized in these countries.

Item 4: Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on the evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934) required by Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

The information set forth under “Note 9 — Commitments and Contingencies — Litigation and Other Legal Matters” to the condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 1A: Risk Factors

The following discussion is divided into two sections. The first section, which begins immediately following this paragraph, discusses some of the risks that may affect our business, results of operations and financial condition. The second section, captioned "Risk Factors Related to the Planned Separation," discusses some of the risks relating to our plan to separate PayPal into an independent publicly traded company. You should carefully review both of these sections, as well as our consolidated financial statements and notes thereto and the other information appearing in this report, for important information regarding risks that affect us.

Risk Factors That May Affect our Business, Results of Operations and Financial Condition

Our operating and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows, as well as the trading price of our common stock and debt securities.

Our operating and financial results have varied on a quarterly basis during our operating history and may continue to fluctuate significantly as a result of a variety of factors, including as a result of the risks set forth in this “Risk Factors” section. It is difficult for us to forecast the level or source of our revenues or earnings (loss) accurately. In view of the rapidly evolving nature of our business, period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. We do not have backlog, and substantially all of our net revenues each quarter come from transactions involving sales or payments during that quarter. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast expenses as a percentage of net revenues. Quarterly and annual expenses as a percentage of net revenues reflected in our consolidated financial statements may be significantly different from historical or projected rates. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. The trading price of our common stock and debt securities could decline, perhaps substantially, as a result of the factors described in this paragraph.

Substantial and increasingly intense competition worldwide in the ecommerce and global payments industry may harm our business.

Marketplaces

Our Marketplaces businesses currently and potentially compete with a wide variety of online and offline companies providing goods and services to consumers and merchants. The Internet and mobile networks provide new, rapidly evolving and intensely competitive channels for the sale of all types of goods and services. Marketplaces compete in two-sided markets, and must attract both buyers and sellers to use our platforms. Consumers who purchase or sell goods and services through Marketplaces have more and more alternatives, and merchants have more channels to reach consumers. We expect competition to continue to intensify. Online and offline businesses increasingly are competing with each other and our competitors include a number of online and offline retailers with significant resources and well-established brands. Moreover, the barriers to entry into these channels can be low, and businesses easily can launch online sites or mobile platforms and applications at nominal cost by using commercially available software or partnering with any of a number of successful ecommerce companies. As we respond to changes in the competitive environment, we may, from time to time, make pricing, service or marketing decisions or acquisitions that may be controversial with and lead to dissatisfaction among sellers, which could reduce activity on our websites and harm its profitability.

Our Marketplaces businesses face increased competitive pressure online and offline. In particular, the competitive norm for, and the expected level of service from, ecommerce and mobile commerce has significantly increased, due to, among other factors, improved user experience, greater ease of buying goods, lower (or no) shipping costs, faster shipping times and more favorable return policies. Also, certain platform businesses, such as Alibaba, Apple, Google and Facebook, many of whom are larger than us or have greater capitalization, have a dominant and secure position in other industries or certain significant markets, and offer other goods and services to consumers and merchants that we do not offer. If we are unable to change our products, offerings and services in ways that reflect the changing demands of the ecommerce and mobile commerce marketplaces, particularly the higher growth of sales of fixed-price items and higher expected service levels (some of which depend on services provided by sellers on our platforms), or compete effectively with and adapt to changes in larger platform businesses, our business will suffer.

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

Some of our competitors control other products and services that are important to our success, including credit card interchange, Internet search, and mobile operating systems. Such competitors could manipulate pricing, availability, terms or operation of service related to their products and services in a manner that impacts our competitive offerings. For example, Google, which operates a shopping platform service, has from time to time made changes to its search algorithms that reduced the amount of search traffic directed to Marketplaces from searches on Google. If we are unable to use or adapt to operational changes in such services, we may face higher costs for such services, or face integration or technological barriers, it could raise our costs and our business will suffer.

Consumers who might use our Marketplaces sites to buy goods have a wide variety of alternatives, including traditional department, warehouse, boutique, discount and general merchandise stores (as well as the online and mobile operations of these traditional retailers), online retailers and their related mobile offerings, online and offline classified services and other shopping channels, such as offline and online home shopping networks. In the United States, these include Amazon.com (which recently opened an experimental brick-and-mortar store in New York City and continues to expand into new geographies and lines of business), Google, Wal-Mart, Target, Sears, Macy's, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam's Club, Buy.com (owned by Rakuten), Yahoo! Shopping, MSN, QVC and Home Shopping Network, among others. In addition, consumers have a large number of online and offline channels focused on one or more of the categories of products offered on our site.

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

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

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

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

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

The principal competitive factors for Marketplaces include the following:

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

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

Payments

The global payments industry is highly competitive. We compete against businesses in varied industries, many of whom are larger than we are, have a dominant and secure position in other industries, and offer other goods and services to consumers and merchants which we do not offer. As online and offline commerce increasingly converge, the pace of change, innovation and disruption is increasing. The payments industry is rapidly changing, highly innovative and increasingly subject to regulatory scrutiny, which may negatively affect the competitive landscape. Our payment programs compete against all forms of payment, including:

- paper-based transactions (principally cash and checks);
- providers of traditional payment methods, particularly credit and debit cards, money orders, and Automated Clearing House transactions (these providers are primarily well-established banks);
- providers of “digital wallets” which offer customers the ability to pay online and/or on mobile devices through a variety of payment methods, including with mobile applications, through contactless payments, and with a variety of payment methods (these providers include Visa, MasterCard, American Express and the Merchant Customer Exchange (“MCX” initiative supported by Wal-Mart, Target and other major U.S. retailers));
- providers of mobile payments solutions that use Visa, American Express and MasterCard’s tokenized card data approaches and Near Field Communication (NFC) functionality, such as Apple’s mobile Apple Pay, and Google’s Android solution, that uses Host Based Card Emulation (HCE) functionality to eliminate the need for a physical NFC chip in the device;

- payment-card processors that offer their services to merchants, including Chase Paymentech, First Data, Bank of America Merchant Services, Elavon, Vantiv, WorldPay, Barclays Merchant Services, Global Payments, Inc., Stripe and Balanced, and payment gateways, including CyberSource and Authorize.net (both owned by Visa), SimplifyCommerce by MasterCard, and First Data;
- Amazon Payments, which offers merchants the ability to accept payment card- and bank-funded payments from Amazon’s base of online and mobile customers on the merchant’s own website. Amazon has a payment service for online merchants under the name Log in and Pay with Amazon;
- providers of “person-to-person” payments that facilitate individuals sending money with an email address or mobile phone number, such as Facebook messaging payments;
- providers of mobile payments, including Buyster in France, Mpass in Germany, Paym in the United Kingdom, Boku and Crandy, many of which are owned by or supported by major mobile telecommunications carriers; and
- providers of card readers for mobile devices and of other new point of sale and multi-channel technologies, including

Square (which has also begun to offer a marketplace service to sellers), Chase Paymentech, Bank of America, AT&T (in association with Vantiv), Capital One, and others.

PayPal also faces competition and potential competition from:

- money remitters such as MoneyGram, Western Union, Global Payments, Inc., Xoom and Euronet;
- bill payment services;
- services that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account or paying on credit in the United States and abroad;
- issuers of stored value targeted at online payments;
- other international online payment-services providers such as AliPay, the PayU group of companies (owned by Naspers), PagSeguro and Bcash (owned by Naspers);
- other providers of online account-based payments, such as Skrill, ClickandBuy (owned by Deutsche Telekom), Barclays Pingit in the United Kingdom, Kwixo in France, and Paymate and Visa PayClick in Australia;
- payment services targeting users of social networks and online gaming, often through billing to the consumer’s mobile phone account;
- mobile payment services between bank accounts, such as the Paym mobile payments service offered by the Payments Council in the United Kingdom;
- payment services enabling banks to offer their online banking customers the ability to send and receive payments through their bank account;
- online shopping services that provide special offers linked to a specific payment provider; and
- services such as Coinbase and Bitpay that help merchants accept and manage virtual currencies such as Bitcoin.

Some of these payment providers have greater customer bases, volume, scale, and market share than we do, which may provide significant competitive advantages. Some of these competitors may also be subject to less burdensome licensing, anti-money laundering, counter-terrorist financing, and other regulatory requirements than PayPal. They may devote greater resources to the development, promotion, and sale of products and services than PayPal, and they may offer lower prices or more effectively introduce their own innovative programs and services that adversely impact PayPal’s growth. We also expect new entrants to offer competitive products and services. In addition, some merchants provide such services to themselves. Competing services tied to established banks and other financial institutions may offer greater liquidity and engender greater consumer confidence in the safety and efficacy of their services than PayPal. In addition, in certain countries, such as Germany, Netherlands and Australia, electronic funds transfer is a leading method of payment for both online and offline transactions. As in the United States, established banks and other financial institutions that do not currently offer online payments could quickly and easily develop such a service.

PayPal competes primarily on the basis of the following:

- ability to attract, retain and engage both merchants and consumers with relatively low marketing expense;
- ability to show that merchants will achieve incremental sales by offering PayPal;
- security of transactions and the ability for consumers to use PayPal without sharing their financial information with the merchant;
- simplicity of PayPal's fee structure;
- ability to develop services across multiple commerce channels, including mobile payments and payments at the retail point of sale;
- trust in PayPal’s dispute resolution and buyer and seller protection programs;
- customer service;
- brand recognition;
- website, mobile platform and application onboarding, ease-of-use and accessibility;
- system reliability and data security;

- ease and quality of integration into third-party mobile applications; and
- quality of developer tools such as our application programming interfaces and software development kits.

If PayPal is not able to differentiate itself from its competitors, drive value for its customers, and/or effectively align its resources with its goals and objectives, PayPal may not be able to compete effectively against our competitors. PayPal's failure to compete effectively against any of the foregoing competitive threats could materially and adversely harm our business.

Enterprise

Our Enterprise business provides a modular, integrated portfolio of commerce technology solutions and services, omnichannel operations solutions and commerce marketing solutions that enable companies to operate and integrate their ecommerce offering and their omnichannel business, including physical stores, in order to sell to consumers across the entire sales journey, from awareness to conversion, delivery and retention. The market for such products and services is continuously evolving and intensely competitive. Many of our Enterprise business's prospective clients may choose to manage all or some aspects of an omnichannel business with internal resources. As a result, the Enterprise business often competes with in-house solutions promoted and supported by internal information technology staffs, marketing departments, merchandising groups and other internal corporate constituencies, as well as with external technology and interactive marketing service providers that supply one or more components that allow prospective clients to develop and operate their omnichannel business in-house. This group of providers may include the prospective client itself and companies that offer one or more of the following: web platforms; customer care/call center services; fulfillment and logistics; systems integration services and technology products and services; email management and data aggregation; online marketing and design services; and other interactive marketing services. Low barriers to entry in the interactive marketing industry could also increase the number of competitors we may face.

Our Enterprise business competes primarily on the basis of the following:

- offering a modular, integrated portfolio of commerce technology solutions and services that are delivered on an individual basis or as bundled solutions;
- providing a licensed open core platform, offering an enterprise-class native feature set and flexibility through direct source code access and APIs that supports on-premise, hosted managed (via partners) and on-demand cloud deployments (via partners);
- promoting the client's brand and business, rather than our own;
- providing enterprise-level scale and operating leverage;
- establishing a commitment to enhance our solutions and services and invest in innovation;
- aligning our financial interests with those of our clients;
- offering a suite of commerce marketing solutions that are integrated with our marketing solutions platform, which we believe provides a more strategic, cohesive and optimized approach to demand generation; and
- providing services that utilize proprietary technology to promote stronger customer engagement designed to increase clients' return on investment.

The Enterprise business has competitors with longer operating histories, larger customer bases, greater brand recognition and greater financial, marketing, and other resources. Those competitors may be able to secure components of their technology and services on more favorable terms and devote more resources to technology development and marketing than the Enterprise business. In addition, to the extent that we expand our Enterprise business internationally, it will face increased competition from global and local companies, which may have a greater understanding of, and focus on, the local customer.

Global and regional economic conditions could harm our business.

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

We are exposed to fluctuations in foreign currency exchange rates.

Because we generate the majority of our revenues outside the United States but report our financial results in U.S. dollars, our financial results are impacted by fluctuations in foreign currency exchange rates, or foreign exchange rates. The results of operations of many of our internationally focused websites are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars for financial reporting purposes. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated revenues or expenses will result in increased U.S. dollar denominated revenues and expenses. Similarly, if the U.S. dollar strengthens against foreign currencies, particularly the Euro, British pound, Korean won, Australian dollar, or Canadian dollar, our translation of foreign currency denominated revenues or expenses will result in lower U.S. dollar denominated net revenues and expenses. For the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by $234 million (inclusive of a positive impact of approximately $50 million from hedging activities included in Payments net revenue). In addition to this translation effect, a strengthening U.S. dollar will typically adversely affect the volume of goods being sold by U.S. sellers to Europe, Australia and Canada more than it positively affects the volume of goods being sold by sellers in those geographies to buyers in the United States, thereby further negatively impacting our financial results. Additionally, in connection with its services in multiple currencies, PayPal sets its foreign exchange rates twice per day, and may face financial exposure if it incorrectly sets its foreign exchange rates or as a result of fluctuations in foreign exchange rates between the times that PayPal sets its foreign exchange rates. Given that PayPal also holds some corporate and customer funds in non-U.S. currencies, its financial results are affected by the translation of these non-U.S. currencies into U.S. dollars.

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

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

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

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

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

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

Cross-border trade is an important source of both revenue and profits for us. Cross-border transactions generally provide higher revenues and gross margins than similar transactions that take place within a single country or market. Cross-border trade also represents our primary (or in some cases, only) presence in certain important markets, such as Brazil/Latin America, China, and various other countries. In addition, our cross-border trade is also subject to, and may be impacted by, foreign exchange rate fluctuations.

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

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

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

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

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

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

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

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

Rapid, significant technological changes continue to confront the industries in which we operate. While rapidly changing technology affects all of our business segments, the challenges faced by our Payments segment are particularly significant and include developments in smart cards, tokenization, ecommerce, mobile, and radio frequency and proximity payment devices, such as contactless payments. We cannot predict the effect of technological changes on our business. In addition to our own initiatives and innovations, we rely in part on third parties, including some of our competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the industries in which we operate will continue to emerge. These new services and technologies may be superior to, or render obsolete, the technologies we currently use in our products and services. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and ultimately may not be successful. In addition, our ability to adopt new services and develop new technologies may be inhibited by industry-wide standards, payments networks, new laws and regulations, resistance to change from clients or merchants, or third parties' intellectual property rights. Our success will depend on our ability to develop new technologies and adapt to technological changes and evolving industry standards.

Our business is subject to extensive government regulation and oversight.

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

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

PayPal is subject to extensive government regulation and oversight relating to the provision of financial services.

PayPal is subject to various laws and regulations in the United States and other countries where it operates. Such laws and regulations include those governing banking, deposit taking, cross-border and domestic money transmission, foreign exchange, and payment services, such as payment processing and settlement services. The legal and regulatory requirements that apply to PayPal vary in the markets where PayPal operates and have increased over time as the geographical scope and complexity of PayPal's business and products have expanded. While PayPal has a compliance program focused on compliance with applicable laws and regulations and has increased the resources allocated to that program in the last several years, PayPal may still be subject to fines or other enforcement actions in one or more jurisdictions or be required to make changes to its business practices or compliance programs in the future. Non-compliance could also result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets, or other enforcement actions. Costs associated with fines, enforcement actions, as well as reputational harm, changes in compliance requirements or limits on PayPal's ability to expand our product offerings could harm its business.

PayPal has obtained licenses to operate as a money transmitter (or its equivalent) in the United States, in the states where it is required, and the District of Columbia, the U.S. Virgin Islands and Puerto Rico. PayPal's subsidiary, Venmo, is also licensed as a money transmitter in certain U.S. states. As licensed money transmitters, PayPal and Venmo are subject to restrictions on their investment of customer funds, reporting requirements, bonding requirements and inspection by state regulatory agencies. Accordingly, PayPal and Venmo could be subject to liability and/or additional restrictions, forced to cease doing business with residents of certain states, forced to change their business practices or be required to obtain additional licenses or regulatory approvals that could impose substantial cost if they violate these laws or regulations.

While PayPal currently allows its consumers with credit cards to send payments from approximately 200 markets, PayPal allows customers in only approximately half of those markets (including the United States) to also receive payments, in some cases with significant restrictions on the manner in which customers can withdraw funds. These limitations may affect PayPal's ability to grow in these markets. Of the markets whose residents can use the PayPal service, approximately 30 markets are in member states of the European Union. PayPal provides localized versions of its service to customers in the European Union through PayPal (Europe) S.à r.l. et Cie, SCA (PayPal (Europe)), a wholly-owned subsidiary of PayPal that is licensed and subject to regulation as a bank in Luxembourg. Accordingly, PayPal (Europe) is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money-laundering, capitalization, funds management, corporate governance, privacy, information security, bank secrecy, taxation, sanctions, or other requirements imposed on Luxembourg banks. Any fines or other enforcement actions could adversely affect PayPal's business. In addition, European Union laws and regulations are typically subject to different and potentially inconsistent interpretations by the countries that are members of the European Union, which can make compliance more costly and operationally difficult to manage.

In many markets, such as China, much of Southeast Asia and South America, we serve our customers through PayPal Pte. Ltd., our wholly-owned subsidiary that is based in Singapore. PayPal Pte. Ltd. is supervised by the Monetary Authority of Singapore as a holder of a stored value facility and does not hold a remittance license. As a result, PayPal Pte. Ltd. is not able to offer remittance payments (including donations to charities) in Singapore, and can only offer payments for the purchase of goods and services. In many of the markets (other than Singapore) served by PayPal Pte. Ltd., it is not clear whether our Singapore-based service is subject only to Singapore law or, if it is subject to local laws, whether such local laws would require a payment processor like us to be licensed as a bank or financial institution or otherwise.

In Australia, we serve our customers through PayPal Australia Pty. Ltd., which is licensed by the Australian Securities and Investments Commission as a financial product and by the Australian Prudential Regulation Authority as a purchased payment facility provider, which is a type of authorized depository institution. Accordingly, PayPal Australia would be subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, privacy, corporate governance or other requirements imposed on Australian depository institutions.

PayPal is also subject to regulation in other markets in which it does business and PayPal has been and expects to continue to be required to apply for various licenses, certifications and regulatory approvals in a number of the countries where it has operations, such as Canada, Turkey, China, Mexico, Brazil and Hong Kong. There can be no assurance that PayPal will be able to obtain any such licenses. Even if PayPal were able to obtain such licenses, there are substantial costs and potential product changes involved in maintaining such licenses, and PayPal would be subject to fines or other enforcement action if it violates disclosure, reporting, anti-money laundering, capitalization, corporate governance or other requirements of such licenses. These factors could impose substantial additional costs and involve considerable delay to the development or provision of PayPal's products in certain countries.

In other countries it may not be clear whether PayPal is required to be licensed as a bank, financial institution or otherwise. In such markets, PayPal may rely on partnerships with local banks to process payments and conduct foreign exchange in local currency. Local regulators may use their power to slow or halt payments to local merchants conducted through PayPal's local banking partner. Such regulatory actions or the need to obtain licenses, certifications or other regulatory approvals could impose substantial costs and involve considerable delay to the provision or development of PayPal services in a given market, or could require significant and costly operational changes or prevent PayPal from providing any services in a given market.

PayPal is subject to consumer protection laws and regulations.

PayPal is subject to consumer protection laws and regulations in the United States and the other countries in which it operates. PayPal is focused on compliance with these laws and regulations and has programs designed to comply with new and existing consumer protection requirements. However, any errors, failures, or delays in complying with such consumer protection laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets, or other enforcement actions, as well as reputational harm. Any new consumer protection laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to PayPal could subject PayPal to additional restrictions on its operations, additional compliance and licensure requirements, and increased regulatory scrutiny, which could force PayPal to change its business practices or limit its ability to grow its business. Costs associated with fines or enforcement actions, changes in its compliance requirements, or limitations on its ability to grow our business, could have an adverse effect on its financial results and harm PayPal.

Although there have been no definitive interpretations to date, PayPal has taken actions as though its service is subject to the Electronic Fund Transfer Act and Regulation E enforced by the Consumer Financial Protection Bureau, or CFPB. Under such regulations, among other things, PayPal is required to provide advance disclosure of changes to its service, to follow specified error resolution procedures and to reimburse consumers for losses from certain transactions not authorized by the consumer. Additionally, even technical violations of these laws can result in penalties of up to $1,000 for each non-compliant transaction or up to $500,000 per violation in any class action, and we could also be liable for plaintiffs' attorneys' fees. In the second quarter of 2010, two putative class-action lawsuits (Devinda Fernando and Vadim Tsigel v. PayPal, Inc. and Moises Zepeda v. PayPal, Inc.) were filed in the U.S. District Court for the Northern District of California. We are in the process of settling these cases. These lawsuits contain allegations related to violations of aspects of the Electronic Fund Transfer Act and Regulation E and violations of a previous settlement agreement related to Regulation E, and/or allege that PayPal improperly held consumer funds or otherwise improperly limited consumer accounts. These lawsuits seek damages as well as changes to PayPal's practices, among other remedies. A determination that there have been violations of the Electronic Fund Transfer Act, Regulation E or violations of other laws relating to PayPal's practices could expose PayPal to significant liability. Any changes to PayPal's practices resulting from these lawsuits could require PayPal to incur significant costs and to expend substantial resources, which could delay other planned product launches or improvements and further harm our business.

The financial services sector has been increasingly subject to regulatory scrutiny. In January 2012, the CFPB finalized rules under Regulation E, mandated by the Dodd-Frank Act, which required PayPal, beginning in October 2013, to provide additional disclosures, error resolution rights, and cancellation rights to U.S. consumers who make international remittance payments. In November 2014, the CFPB proposed a new prepaid account rule that would apply to prepaid cards and mobile wallets, including PayPal accounts. In December 2014, PayPal became subject to CFPB supervision and examination pursuant to a new regulation that allows the CFPB to supervise all companies, including PayPal, that provide more than one million international money transfers per year. Under the regulation, CFPB examiners are now able to examine PayPal for compliance with the remittance transfer rule and other laws and regulations. For other matters relating to regulation by the CFPB, please see "Note 9: Commitments and Contingencies - Litigation and Other Legal Matters - Regulatory Proceedings."

PayPal (Europe) implements its localized services in European Union countries through a “passport” notification process through the Luxembourg regulator to regulators in other European Union member states pursuant to European Union Directives, and has completed the “passport” notification process in all European Union member countries other than Croatia. The regulators in these countries could notify PayPal (Europe) of local consumer protection laws that apply to its business, in addition to Luxembourg consumer protection law, and could also seek to persuade the Luxembourg regulator to order PayPal (Europe) to conduct its activities in the local country through a branch office. These or similar actions by these regulators could increase the cost of, or delay, PayPal’s plans for expanding its business in European Union countries. In addition, the countries that are members of the EU may each have different and potentially inconsistent interpretations of regulations implementing the European Union Payment Services Directive, which could make compliance more costly and operationally difficult to manage. The European Commission has proposed revisions to the Payments Services and Anti-Money Laundering Directives, which could further make compliance more costly and operationally difficult to manage. Finally, if the assets of PayPal (Europe) exceed certain thresholds, PayPal (Europe) could become regulated by the European Central Bank rather than Luxembourg, which would likely increase its costs.

PayPal is subject to anti-money laundering and counter-terrorist financing laws and regulations.

PayPal is subject to various anti-money laundering and counter-terrorist financing laws and regulations around the world that prohibit, among other things, its involvement in transferring the proceeds of criminal activities. PayPal has programs designed to comply with new and existing legal and regulatory requirements. However, any errors, failures, or delays in complying with federal, state or foreign anti-money laundering or counter-terrorist financing laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets, or other enforcement actions, as well as reputational harm. For a discussion of PayPal's dealings with the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC), please see “Note 9: Commitments and Contingencies - Litigation and Other Legal Matters — Regulatory Proceedings.”

U.S. regulators have increased their scrutiny of compliance with these obligations, which may require PayPal to further revise or expand its compliance program, including the procedures it uses to verify the identity of its customers and to monitor international and domestic transactions. Several countries in which PayPal is regulated have also implemented new anti-money laundering and counter-terrorist financing laws and regulations, and PayPal has had to make changes to its compliance program in response. Regulators regularly re-examine the transaction volume thresholds at which PayPal must obtain and keep applicable records or verify identities of customers and any change in such thresholds could result in greater costs for compliance. Costs associated with fines or enforcement actions, changes in compliance requirements, or limitations on our ability to grow our business could harm our business and any new requirements or changes to existing requirements could impose significant costs on PayPal, result in delays to planned product improvements, make it more difficult for new customers to join PayPal’s network and reduce the attractiveness of its products.

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

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

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

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

We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business. Data collection, privacy and security have become the subject of increasing public concern. If Internet and mobile users were to reduce their use of our websites, mobile platforms, products, and services as a result of these concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Other laws and regulations could harm our business.

It is not always clear how laws and regulations governing matters relevant to our business, such as property ownership, copyrights, trademarks, and other intellectual property issues, parallel imports and distribution controls, taxation, libel and defamation, and obscenity apply to our businesses. Many of these laws were adopted prior to the advent of the Internet, mobile, and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Many of these laws, including some of those that do reference the Internet are subject to interpretation by the courts on an ongoing basis and, as a result, their applicability and scope remain uncertain. As our activities, the products and services we offer, and our geographical scope continue to expand, regulatory agencies or courts may claim or hold that we or our users are subject to additional requirements (including licensure) or prohibited from conducting our business in their jurisdiction, either generally or with respect to certain actions. Financial and political events have increased the level of regulatory scrutiny on large companies, and regulatory agencies may view matters or interpret laws and regulations differently than they have in the past and in a manner adverse to our businesses. Our success and increased visibility have driven some existing businesses that perceive us to be a threat to their businesses to raise concerns about our business models to policymakers and regulators. These businesses and their trade association groups employ significant resources in their efforts to shape the legal and regulatory regimes in countries where we have significant operations. They may employ these resources in an effort to change the legal and regulatory regimes in ways intended to reduce the effectiveness of our businesses and the ability of users to use our products and services. These established businesses have raised concerns relating to pricing, parallel imports, professional seller obligations, selective distribution networks, stolen goods, copyrights, trademarks and other intellectual property rights and the liability of the provider of an Internet marketplace for the conduct of its users related to those and other issues. Any changes to the legal or regulatory regimes in a manner that would increase our liability for third-party listings could negatively impact our business.

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

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

As we expand and localize our international activities, we are increasingly becoming obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to users worldwide, one or more jurisdictions may claim that we or our users are required to comply with their laws based on the location of our servers or one or more of our users, or the location of the product or service being sold or provided in an ecommerce transaction. For example, we were found liable in France, under French law, for transactions on some of our websites worldwide that did not involve French buyers or sellers. Laws regulating Internet, mobile and ecommerce technologies outside of the United States are generally less favorable to us than those in the United States. Compliance may be more costly or may require us to change our business practices or restrict our service offerings, and the imposition of any regulations on us or our users may harm our business. In addition, we may be subject to multiple overlapping legal or regulatory regimes that impose conflicting requirements on us (e.g., in cross-border trade). Our alleged failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to significant fines to bans on our services, in addition to the significant costs we may incur in defending against such actions.

Following the global financial crisis of 2008, U.S. federal lawmakers enacted the Dodd-Frank Act overhauling the federal government's oversight of consumer financial products and systemic risk in the U.S. financial system. The general effect of the financial reform law has been, and we expect will continue to be, to require PayPal to make additional disclosures to its users and to impose new restrictions and requirements on certain of its activities, resulting in new compliance requirements and obligations that could increase our costs, may result in increased litigation and the need to make expensive product changes, and could otherwise harm our business.

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

We are regularly subject to claims, lawsuits (including class actions and individual lawsuits), government investigations, and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, accessibility claims, securities, tax, labor and employment, commercial disputes, content generated by our users, services and other matters. The number and significance of these disputes and inquiries have increased as our company has grown larger, our businesses have expanded in scope and geographic reach, and our products and services have increased in complexity. In addition, some of the laws and regulations affecting Internet and mobile commerce and consumer credit are subject to ongoing interpretation by the courts and governmental authorities, and the resulting uncertainty in the scope and application of these laws and regulations increases the risk that we will be subject to private claims and governmental actions alleging violations of those laws and regulations.

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

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

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

We are subject to patent litigation.

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

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

Such claims may be brought directly against us and/or against our customers whom we may indemnify either because we are contractually obligated to do so or we choose to do so as a business matter. We believe that an increasing number of these claims against us and other technology companies have been, and continue to be, initiated by third parties whose sole or primary business is to assert such claims. In addition, we have seen significant patent disputes between operating companies in some technology industries. Patent claims, whether meritorious or not, are time-consuming and costly to defend and resolve, and could require us to make expensive changes in our methods of doing business, enter into costly royalty or licensing agreements, make substantial payments to satisfy adverse judgments or settle claims or proceedings, or cease conducting certain operations, which would harm our business.

We are exposed to fluctuations in interest rates.

Investments in both fixed-rate and floating-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate investment securities may be adversely impacted due to a rise in interest rates. In general, fixed-rate securities with longer maturities are subject to greater interest-rate risk than those with shorter maturities. While floating rate securities generally are subject to less interest-rate risk than fixed-rate securities, floating-rate securities may produce less income than expected if interest rates decrease and may also suffer a decline in market value if interest rates increase. Due in part to these factors, our investment income may decline or we may suffer losses in principal if securities are sold that have declined in market value due to changes in interest rates. As of March 31, 2015, the balance of our government bond and corporate debt securities portfolio was $8.5 billion, which represented approximately 56% of our total cash and investment portfolio. In addition, relatively low interest rates limit our investment income, including income we earn on PayPal customer balances. Fluctuations in interest rates that increase the cost of our current or future indebtedness, cause the market value of our assets to decline or reduce our investment income could adversely affect our financial results.

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

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

- Some jurisdictions, in particular jurisdictions outside the United States, prohibit the resale of event tickets (anti-scalping laws) at prices above the face value of the tickets or at all, or highly regulate the resale of tickets, and new laws and regulations or changes to existing laws and regulations imposing these or other restrictions could limit or inhibit our ability to operate, or our users' ability to continue to use, our tickets business.
- Regulatory agencies or courts may claim or hold that we are responsible for ensuring that our users comply with these laws and regulations.
- In many jurisdictions, our tickets business depends on commercial partnerships with event organizers or licensed ticket vendors, which we must develop and maintain on acceptable terms for our tickets business to be successful.
-

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

- A portion of the tickets inventory sold by sellers on the StubHub website is processed by StubHub in digital form. Systems failures, security breaches, theft or other disruptions that result in the loss of such sellers' tickets inventory, could result in significant costs and a loss of consumer confidence in our tickets business.
- Lawsuits alleging a variety of causes of actions have in the past, and may in the future, be filed against StubHub and eBay by venue owners, competitors, ticket buyers, and unsuccessful ticket buyers. Such lawsuits could result in significant costs and require us to change our business practices in ways that negatively affect our tickets business.
- Our tickets business also faces significant competition from a number of sources, including ticketing service companies, event organizers, ticket brokers, and online and offline ticket resellers. Some ticketing service companies, event organizers, and professional sports teams have begun to issue event tickets through various forms of electronic ticketing systems that are designed to restrict or prohibit the transferability (and by extension, the resale) of such event

tickets either to favor their own resale affiliates or to discourage resale or restrict resale of season tickets to a preferred, designated website. Ticketing service companies have also begun to use market-based pricing strategies or dynamic pricing to charge much higher prices, and impose additional restrictions on transferability, for premium tickets.

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

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

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

- In Turkey, local prosecutors and courts are investigating our liability for allegedly illegal actions by users of our Turkish Marketplaces business (GittiGidiyor). In accordance with local law and custom, they have indicted one or more members of the board of directors of our local Turkish subsidiary. We intend to defend vigorously against any such actions and a growing number of these cases have been dismissed by the relevant courts.
- In August 2012, we were informed that U.S. listings of footwear with religious imagery were visible on our local Indian site and we immediately removed these listings. In September 2012, a criminal case was registered against us in India in regard to these listings, and we are challenging the prosecution of this case.

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

Use of our payments services for illegal purposes could harm our business.

PayPal's payment system is susceptible to potentially illegal or improper uses, including terrorist financing, illegal online gambling, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, piracy of software, movies, music, and other copyrighted or trademarked goods, money laundering, bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages or tobacco products, online securities fraud, and encouraging, promoting, facilitating or instructing others to engage in illegal activities. There has been an increased focus by intellectual property rights owners and government officials on the role that payments systems play in the sale of, and payment for, pirated digital goods on the Internet, primarily through file sharing services. Changes in law have increased the penalties for intermediaries providing payment services for certain illegal activities and additional payments-related proposals are under active consideration by government authorities. Intellectual property rights owners may seek to bring legal action against payment companies such as PayPal and other entities that are peripherally involved in the sale of infringing items. Rights owners have also increasingly gone into U.S. courts and obtained injunctions requiring PayPal to cease handling transactions for named websites and third parties (in most cases located outside the United States) and to hold the funds of such parties pending judicial resolution of the rights owners' claims, which disrupts the relationship between PayPal and such parties.

Any resulting claims could damage our reputation and any resulting liabilities, loss of transaction volume or increased costs could harm our business.

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

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

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

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

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

Over the last several years we have enhanced the buyer and seller protections offered by PayPal on certain of our Marketplaces and in certain countries, and may further enhance those protections in the future. Changes to PayPal’s buyer and seller protection programs could result in changes and fluctuations in our Payments transaction loss rate. For the three months ended March 31, 2015, our Payments transaction losses (including both direct losses and buyer protection payouts) totaled $122 million, representing 0.20% of our net total payment volume. Increased costs, loss rates or liabilities resulting from our buyer and seller protection programs could harm our business.

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

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

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

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

Changes to payment card networks or bank fees, rules, or practices could harm PayPal.

PayPal does not directly access the payment card networks, such as Visa and MasterCard, that enable PayPal's acceptance of credit cards and debit cards (including some types of prepaid cards). As a result, PayPal must rely on banks or other payment processors to process transactions, and must pay fees for the services. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction which accesses their networks. PayPal's payment card processors have the right to pass any increases in interchange fees and assessments on to PayPal as well as increase their own fees for processing. Any changes in interchange fees and assessments could increase PayPal's operating costs and reduce its operating income.

In addition, in some jurisdictions, governments have required Visa and MasterCard to reduce interchange fees, or have opened investigations as to whether Visa's or MasterCard's interchange fees and practices violate antitrust law. In the United States, the Federal Reserve Board issued a final rule capping debit card interchange fees at significantly lower rates than Visa or MasterCard previously charged. In the European Union, the Multilateral Interchange Fee (MIF) Regulation limits credit and debit interchange fees for payments to 0.3% and 0.2%, respectively. The MIF Regulation, which is expected to become effective in the second half of 2015, may significantly impact PayPal's pricing policy in the European Union. Any such material reduction in credit or debit card interchange rates in the United States or other markets could jeopardize PayPal's competitive position against traditional credit and debit card processors, although it would also lower PayPal's costs. Future changes to those regulations or to PayPal's business could potentially cause PayPal to be treated as a payment card network, which could subject PayPal to additional regulation and require PayPal to change its business practices, which could reduce PayPal's revenue and adversely affect PayPal's business.

PayPal is required by its processors to comply with payment card network operating rules, including special operating rules for payment service providers to merchants, and PayPal has agreed to reimburse its processors for any fines they are assessed by payment card networks as a result of any rule violations by PayPal or PayPal's merchants. The payment card networks set and interpret the card operating rules. Payment card networks have from time to time alleged that various aspects of PayPal's business model violate these operating rules. If such allegations are not resolved, they could result in material fines and penalties or require changes in PayPal's business that may be costly. The payment card networks could adopt new operating rules or interpret or re-interpret existing rules that PayPal or its processors might find difficult or even impossible to follow, or costly to implement. As a result, PayPal could lose its ability to give consumers the option of using payment cards to fund their payments or the choice of currency in which they would like their card to be charged. If PayPal were unable to accept payment cards or were meaningfully limited in its ability to do so, its business would be harmed.

PayPal and its payment card processors have implemented specific business processes for merchants in order to comply with operating rules for providing services to merchants, but any failure to comply could result in fines. PayPal also could be, and in the past has been, subject to fines from payment card networks if it fails to detect that merchants are engaging in activities that are illegal or that are considered "high risk," primarily the sale of certain types of digital content. For “high risk” merchants, PayPal must either prevent such merchants from using PayPal or register such merchants with the payment card networks and conduct additional monitoring with respect to such merchants. Although the amount of these fines has not been material to date, any additional fines in the future could become material and could result in a termination of PayPal’s ability to accept payment cards or require changes in PayPal’s process for registering new customers. This would significantly damage PayPal’s business. PayPal’s retail point-of-sale solution and PayPal Here product are also subject to payment card network operating rules, which may increase the costs of those products or otherwise negatively impact their deployment.

Changes in how consumers fund their PayPal transactions could harm our business.

PayPal pays significant transaction fees when consumers fund payment transactions using credit cards, lower fees when consumers fund payments with debit cards, nominal fees when consumers fund payment transactions by electronic transfer of funds from bank accounts, and no fees when consumers fund payment transactions from an existing PayPal account balance or through the PayPal Credit products. PayPal’s financial success is highly sensitive to changes in the rate at which its consumers fund payments using credit and debit cards, which can significantly increase PayPal's costs. Some of PayPal’s consumers may prefer to use credit and debit cards if these cards offer functionality and benefits not associated with the use of their bank accounts. Some of PayPal’s offerings, including the ability of consumers to make a limited number of “guest” payments without opening a PayPal account, have a higher rate of payment card funding than PayPal’s basic product offering. An increase in the portion of PayPal’s payment volume using credit and debit cards would materially and adversely affect PayPal’s financial performance. Some of PayPal’s plans to lower its funding costs, including both the PayPal Credit products and the ability for consumers to defer payment for a short period of time on some transactions, may increase the risk to PayPal of nonpayment by consumers. An increase in fees associated with our funding mix or in losses associated with nonpayment by consumers could harm our business.

Our credit products and services expose us to additional risks.

Our PayPal Credit products are offered to a wide range of consumers, and the financial success of this business depends on the ability of PayPal and the issuing banks of the PayPal Credit products to manage credit risk related to those products. The lenders extend credit at the point of sale using our proprietary segmentation and credit scoring algorithms and other analytical techniques designed to analyze the credit risk of specific consumers based on their past purchasing and payment history as well as their credit scores. These algorithms and techniques may not accurately predict the creditworthiness of a consumer due to inaccurate assumptions about a particular consumer or the economic environment, among other factors. The accuracy of the predictions and the ability of the lenders and PayPal to manage credit risk related to the PayPal Credit products may also be affected by legal or regulatory changes (e.g., bankruptcy laws and minimum payment regulations), competitors’ actions, changes in consumer behavior, and other factors. A lender may incorrectly interpret the data produced by these algorithms in setting its credit policies, which may impact the financial performance of the PayPal Credit products. In addition, economic and financial conditions may affect consumer confidence levels and reduce consumers’ ability or willingness to use credit, including the credit extended by a lender to PayPal Credit account holders who use the PayPal Credit products, which could harm our business. As of March 31, 2015, approximately $21.5 billion of unused credit was available to PayPal Credit accountholders. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit accountholders will access their entire available credit at any given point in time. In addition, the individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institutions that are the issuers of PayPal Credit products based on, among other things, account usage and customer creditworthiness.

Over the past several years, the volume of credit extended by the financial institutions issuing the PayPal Credit products has increased. In the United States, PayPal purchases the receivables relating to these consumer loans extended by the issuing banks, and therefore bears the risk of loss in the event of loan defaults. Like other businesses with significant exposure to losses from consumer credit, we face the risk that PayPal Credit account holders will default on their payment obligations with respect to the consumer loans, making the receivables uncollectible and creating the risk of potential charge-offs. The non-payment rate among PayPal Credit account holders may increase due to, among other things, changes to underwriting standards by PayPal and the financial institutions issuing the PayPal Credit products, worsening economic conditions, such as a recession or greater austerity in various countries, and high unemployment rates. Consumers who miss payments on their obligations often fail to repay them, and consumers who file for protection under the bankruptcy laws generally do not repay their loans.

PayPal has entered into an agreement with Synchrony (formerly GE Capital Retail Bank) pursuant to which PayPal, one of its affiliates or a third party partner of PayPal will, subject to certain conditions, purchase a dual branded retail credit card portfolio from Synchrony with PayPal ultimately owning the related receivables. This transaction is currently expected to close in the fourth quarter of 2016, although there can be no assurance that this transaction will close on terms currently contemplated, or at all. If this transaction is consummated, it will increase the risks relating to our ownership of consumer loan receivables.

In 2013, PayPal began a program, working with WebBank, for WebBank to offer business loans to selected merchants in the United States, and for PayPal to purchase the related receivables. Similar programs are also available in the United Kingdom and Australia. Loans to merchants present risks similar to those discussed above associated with the PayPal Credit products.

We purchase receivables related to PayPal Credit products and other credit accounts. If we are unable to fund our purchase of these receivables adequately or in a cost-effective manner, or if we are unable to efficiently manage the cash resources utilized to purchase these receivables, our business could be harmed.

PayPal is not a bank or licensed lender in the United States and relies upon third parties to make the loans and provide the other services critical to its business.

As PayPal is neither a chartered financial institution nor licensed to make loans in any state, we must rely on a bank or licensed lender to offer the PayPal Credit products in the United States. Currently, when a U.S. consumer makes a purchase using a PayPal Credit product, a chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale, and advances funds to the merchant. We subsequently purchase and retain most of the consumer receivables related to the consumer loans made by the chartered financial institution and, as a result of the purchase, bear most of the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each of the consumer accounts, we own most of the related consumer receivables, and we are also responsible for servicing functions related to the consumer account.

Comenity Capital Bank , which is an industrial bank chartered by the State of Utah, currently issues PayPal Credit products in the United States. We also have an agreement with WebBank, an industrial bank chartered by the State of Utah pursuant to which WebBank has agreed to take ownership of (and originate loans with respect to) all consumer accounts in the event of a termination or interruption in Comenity Capital Bank's ability to lend. Nevertheless, any termination or interruption of WebBank's or Comenity Capital Bank's ability to lend could result in the inability to originate any new PayPal Credit products, which would require us either to reach a similar arrangement with another chartered financial institution, which, if possible at all, may not be available on favorable terms, or to obtain our own bank charter, which would be a time-consuming and costly process and would subject us to a number of additional laws and regulations, compliance with which would be burdensome.

The PayPal Credit products also rely on third-party merchant processors and payment gateways to process transactions. For the three months ended March 31, 2015, approximately 9% of all transaction volume by dollar amount through the PayPal Credit products was settled through the facilities of a single vendor. Any disruption to these third-party payment processing and gateway services would adversely affect the PayPal Credit products.

PayPal's failure to manage the assets underlying its customer funds properly could harm its business.

PayPal's ability to manage and account accurately for the assets underlying its customer funds requires a high level of internal controls. As PayPal's business continues to grow and it expands its product offerings, it must continue to strengthen its internal controls accordingly. PayPal's success requires significant public confidence in its ability to handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain necessary controls or to manage the assets underlying its customer funds accurately could severely diminish customer use of PayPal's products and/or result in penalties and fines, which could harm our business.

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

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

Failure to deal effectively with fraud, fictitious transactions, bad transactions, and negative customer experiences would increase our loss rate and harm our business, and could severely diminish consumer confidence in and use of our services.

PayPal incurs substantial losses due to claims from consumers that merchants have not performed or that their goods or services do not match the merchant's description. PayPal seeks to recover such losses from the merchant, but may not be able to recover in full if the merchant is unwilling or unable to pay. PayPal also incurs losses from claims that the customer did not authorize the purchase, from buyer fraud, from erroneous transmissions and from consumers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition, if losses incurred by PayPal related to payment card transactions become excessive, they could potentially result in PayPal losing the right to accept payment cards for payment. In the event that PayPal was unable to accept payment cards, the number of transactions processed through PayPal would decrease substantially and our business could be harmed. PayPal is similarly subject to the risk of fraudulent activity associated with merchants, users of PayPal Credit products and third parties handling its user information. PayPal has taken measures to detect and reduce the risk of fraud, but these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business could be harmed.

PayPal's retail point of sale solutions expose us to additional risks.

PayPal has announced several retail point of sale solutions, which enable merchants to accept payments using a payments card reader attached to, or otherwise communicating with, a mobile device or to scan payment cards and codes using the mobile device's embedded camera and which will enable customers to use their mobile devices to pay hands-free. To the extent that PayPal continues to expand its product and service offerings at the retail point of sale, we will face additional risks, including:

- increased expectations from offline retailers regarding the reliability and availability of its systems and services and correspondingly lower amounts of downtime, which PayPal may not be able to meet;
- significant competition at the retail point of sale, particularly from established payment card providers such as Visa, MasterCard and American Express, many of which have substantially greater resources than we do;
- increased targeting by fraudsters, and given that our fraud models are less developed in this area, we may experience increases in fraud and associated transaction losses as we adjust to fraudulent activity at the point of sale;
- exposure to product liability claims to the extent that hardware devices that we produce for use at the retail point of sale malfunction or are not in compliance with laws , which could result in substantial liability and require product recalls or other actions;
- exposure to new or additional laws and regulations;
- increased reliance on third parties involved with processing in-store payments, including independent software providers, electronic point of sale providers, hardware providers (such as cash register and pin-pad providers), payment processors and banks that enable in-store transactions; and
- lower operating income than PayPal's other payment solutions.

Unless we are able to successfully manage these risks, including driving adoption of, and significant volume through, our retail point of sale solutions over time, our business could be harmed.

Our Enterprise business exposes us to additional risks.

Our Enterprise business faces its own risks and challenges. Competition for Enterprise's existing and potential clients is intense, and our Enterprise business may not be able to add new clients or keep existing clients on favorable terms, or at all. For example, a change in the management of an Enterprise client could adversely affect our relationship with that client. In addition, many of Enterprise's client contracts contain service level commitments. If our Enterprise business is unable to meet these commitments, its relationships with its clients could be damaged, and client rights to terminate their contracts with our Enterprise business and/or financial penalty provisions payable by our Enterprise business may be triggered. These contracts contain provisions under which our Enterprise business has agreed to indemnify Enterprise clients against certain claims by third parties regarding our products and services. If any existing Enterprise clients (in particular, the large merchants and brands that our Enterprise business serves) were to exit the business we provide services to, be acquired, declare bankruptcy, suffer other financial difficulties, make indemnification claims against us, fail to pay amounts owed to our Enterprise business and/or terminate or modify their relationships with our Enterprise business in an unfavorable manner, our Enterprise business could be adversely affected.

A portion of Enterprise's net transaction revenue is derived from the value of ecommerce transactions that flow through its suite of commerce technologies. Accordingly, growth in Enterprise's net transaction revenue depends upon the continued growth of the online businesses of its clients. Our Enterprise business may be substantially impacted by any adverse conditions in the offline businesses of an Enterprise client that negatively impact that client's online businesses. Any impairment of the offline business of Enterprise clients, whether due to financial difficulties, impairment of client brands, reduction in marketing efforts, reduction in the number of client retail stores or otherwise, could negatively affect consumer traffic and sales through Enterprise clients' websites, which would result in lower revenues generated by our Enterprise business. Our Enterprise business also relies on its clients' ability to accurately forecast product demand and select and buy the inventory for their corresponding online businesses. Under such arrangements, the client establishes product prices and pays our Enterprise business fees based either on a fixed or variable percentage of revenues, or on the activity performed. As a result, if Enterprise clients fail to accurately forecast product demand or optimize or maintain access to inventory, the client's ecommerce business (and, in turn, our Enterprise fees) could be adversely affected.

Our Enterprise business holds some inventory on behalf of its clients. If our Enterprise business is unable to effectively manage and handle this inventory, this may result in unexpected costs that could adversely affect our Enterprise business. Any theft of such inventory, or damage or interruption to such inventory, including as a result of earthquakes, hurricanes, floods, fire, power loss, labor disputes, terrorist attacks and similar events and disruptions, could result in losses related to such inventory and disruptions to the businesses of Enterprise clients, which could in turn adversely affect our Enterprise business. While we have insurance coverage to protect against such losses, it may be inadequate to cover all losses, and we may not be able to fully collect, if at all, under these insurance policies.

Our Enterprise business processes personal information on behalf of its clients. The personal information on customers of certain websites operated by Enterprise clients may be regulated under applicable privacy laws and regulations. In some cases, Enterprise's use or disclosure of that information may be restricted by contractual terms, laws and regulations, and any misuse or unpermitted disclosure of that information could negatively impact our Enterprise business and its clients.

Our Enterprise business is in the process of enhancing its marketing solutions platform and plans to migrate existing clients to its new marketing solutions platform. Our Enterprise business could be negatively impacted if this project is delayed, the functionality of the new marketing solutions platform is not accepted by existing or new clients, or the new marketing solutions platform does not operate as expected.

Our Enterprise business utilizes email marketing to drive consumer traffic to the websites operated by some of its clients. Email could become a less effective means of communicating with and marketing to consumers for a variety of reasons, including: problems with technology that make Enterprise's email communications more difficult to deliver and for consumers to read (e.g., the inability of some mobile devices to adequately display email); consumers may disregard marketing emails due to the large volume of such emails they receive; the inability of filters to effectively screen for unwanted emails, resulting in increased levels of junk mail, or "SPAM," which may overwhelm consumers' email accounts; increased use of social networking sites, which may result in decreased use of email as a primary means of communication; continued security concerns regarding Internet usage in general from viruses, worms or similar problems; and increased governmental regulation or restrictive policies adopted by Internet service providers that make it more difficult or costly to utilize email for marketing communications. If any of our Enterprise entities were to end up on SPAM lists or lists of entities that have been involved in sending unwanted, unsolicited emails, their ability to contact customers through email could be significantly restricted. If any of the foregoing were to occur, the demand for Enterprise email marketing solutions could decrease and our Enterprise business could be harmed. Our Enterprise business also utilizes mobile messaging as a means of communicating with consumers, which carries risks similar to those described above for email marketing.

Our Enterprise business has relationships with search engines, comparison shopping sites, affiliate marketers, online advertising networks, and other websites to provide content, advertising banners, and other links to its clients' ecommerce businesses. Our Enterprise business relies on these relationships as significant sources of traffic to its clients' ecommerce businesses. If we are unable to maintain these relationships or enter into new relationships on acceptable terms, our ability to attract new customers could be harmed.

eBay and our Enterprise businesses are party to certain acquisition agreements relating to entities purchased by GSI Commerce prior to our acquisition of GSI Commerce. These agreements could subject us to liabilities, which could harm our Enterprise business.

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

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

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

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

- repatriate funds to the United States at substantial tax cost;
- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets; or
- reduce or delay planned capital or operating expenditures.

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

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

A downgrade in our credit ratings could materially adversely affect our business.
The credit ratings assigned to our debt securities could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and there can be no assurance that any rating will not be changed or withdrawn by a rating agency in the future. Moreover, these credit ratings are not recommendations to buy, sell or hold any of our debt securities. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under review for a downgrade or have been assigned a negative outlook, would likely increase our borrowing costs, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows, and could harm our business.
As of January 1, 2015, our long-term debt and short-term funding were rated investment grade by Standard and Poor's Financial Services, LLC (long-term rated A, short-term rated A-1, with a stable outlook), Moody's Investor Service (long-term rated A2, short-term rated P-1, with a stable outlook), and Fitch Ratings, Inc. (long-term rated A, short-term rated F-1, with a stable outlook). Following the September 2014 announcement of our planned separation of our PayPal business, Standard and Poor's Financial Services, LLC and Moody's Investor Service placed our long-term debt and short-term funding ratings under review with negative implications, while Fitch Ratings, Inc. downgraded our long-term debt from A to A- and short-term funding rating from F1 to F2, retaining our investment

grade status, and placed the long-term rating under review with negative implications. As of April 1, 2015, Fitch Ratings, Inc. affirmed the short-term funding rating at F2. We did not experience any material operational, funding, or liquidity impacts from this rating downgrade. We expect that these credit rating agencies will continue to monitor developments in our planned separation of PayPal, including the capital structure for each company after separation, which could result in additional downgrades. We disclose these ratings to enhance the understanding of our sources of liquidity and the effects of our ratings on our costs of funds. Our borrowing costs depend, in part, on our credit ratings and the actions already taken by these credit rating agencies as described above will likely increase, and any further downgrades would likely increase, our borrowing costs.

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

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

We do not collect taxes on the goods or services sold by users of our services. However, some jurisdictions have implemented, or may implement, laws that require out-of-state sellers of tangible personal property to collect and remit taxes. In particular, the Streamlined Sales Tax Project (an ongoing, multi-year effort by U.S. state and local governments to pursue federal legislation that would require collection and remittance of sales tax by out-of-state sellers) could allow states that meet certain simplification and other criteria to require out-of-state sellers to collect and remit sales taxes on goods purchased by in-state residents. The adoption of such legislation could result in a use tax collection responsibility for certain of our sellers. This collection responsibility and the additional costs associated with complex use tax collection, remittance and audit requirements would make selling on our websites and mobile platforms less attractive for small business retailers and would harm our business, and the proliferation of state legislation to expand sales and use tax collection on Internet sales could adversely affect some of our sellers and indirectly harm our business.

Several proposals have been made at the U.S. state and local levels that would impose additional taxes on the sale of goods and services over the Internet. These proposals, if adopted, could substantially impair the growth of ecommerce and our brands, and could diminish our opportunity to derive financial benefit from our activities. While the U.S. federal government’s moratorium on state and local taxation of Internet access or multiple or discriminatory taxes on ecommerce has been extended through October 2015, this moratorium does not prohibit federal, state or local authorities from collecting taxes on our income or from collecting certain taxes that were in effect prior to the enactment of the moratorium and/or one of its extensions.

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

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

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

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

We may have exposure to greater than anticipated tax liabilities.

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

In addition, our future income taxes could be adversely affected by earnings being lower than anticipated (or by the incurrence of losses) in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, as a result of gains on our foreign exchange risk management program, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

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

Our users and we may be subject to sales reporting and record-keeping obligations.

One or more states, the U.S. federal government or foreign countries may seek to impose reporting or record-keeping obligations on companies that engage in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance (and legislation to such effect has been contemplated by several states and a number of foreign jurisdictions) or if one of our companies was ever deemed to be the legal agent of the users of our services by a jurisdiction in which it operates. We are required to report to the Internal Revenue Service (IRS) on customers subject to U.S. income tax who receive more than $20,000 in payments and more than 200 payments in a calendar year. As a result, we are required to request tax identification numbers from certain payees, track payments by tax identification number and, under certain conditions, withhold a portion of payments and forward such withholding to the IRS. We have modified our systems to meet these requirements and expect increased operational costs and changes to our user experience in connection with complying with these reporting obligations. The IRS regulations also require us to collect a certification of non-U.S. status from certain international merchants. The Foreign Account Tax Compliance Act, which took effect at the start of 2013, is likely to require an increase in the number of non-U.S. customers from whom we must obtain a similar certification, and to increase the compliance burdens on us. Any failure by us to meet these new requirements could result in substantial monetary penalties and other sanctions and could harm our business.

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

Our businesses involve the storage and transmission of users' personal financial information. In addition, a significant number of our users authorize us to bill their payment card accounts directly for all transaction and other fees charged by us. An increasing number of websites, including those owned by several other large Internet and offline companies, have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their websites or infrastructure. The techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems, change frequently, may be difficult to detect for a long time, and often are not recognized until launched against a target. Certain efforts may be state sponsored and supported by significant financial and technological resources and therefore may be even more difficult to detect. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving our employees, contractors and temporary staff. A party that is able to circumvent our security measures could misappropriate our or our users' personal information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation. In addition, our users have been and likely will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate user names, passwords, payment card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to our users' computers. Our information technology and infrastructure may be vulnerable to cyberattacks or security incidents and third parties may be able to access our users' proprietary information and payment card data that are stored on or accessible through our systems. Any security breach at a company providing services to us or our users could have similar effects.

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

In addition, under payment card rules and our contracts with our card processors, if there is a breach of payment card information that we store, or that is stored by PayPal's direct payment card processing customers, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. If we were unable to accept payment cards, our businesses would be harmed. Additionally, financial services regulators in various jurisdictions, including the United States and the European Union, have implemented or are considering proposals to impose new authentication requirements on banks and payment processors intended to reduce online fraud, which could impose significant costs on PayPal, require PayPal to change its business practices, make it more difficult for new customers to join PayPal, and reduce the ease of use of its products, which could harm PayPal's business.

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

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

Our systems may experience service interruptions or degradation because of hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses, or other events. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism. Some of our systems are not fully redundant and our disaster recovery planning is not sufficient for all eventualities. In addition, as a provider of payments solutions, we are subject to increased scrutiny by regulators that may require specific business continuity and disaster recovery plans and more rigorous testing of such plans. This increased scrutiny may be costly and time consuming and may divert our resources from other business priorities.

We have experienced and will likely continue to experience system failures, denial of service attacks and other events or conditions from time to time that interrupt the availability or reduce the speed or functionality of our websites and mobile applications. These events have resulted and likely will result in loss of revenue. A prolonged interruption in the availability or reduction in the speed or other functionality of our websites and mobile applications could materially harm our business.

Frequent or persistent interruptions in our services could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our sites, and could permanently harm our reputation and brands. In addition, agreements between our Enterprise business and some of its clients contain commitments regarding availability. If our Enterprise business is unable to meet these commitments, its relationship with its clients could be damaged and may trigger a client's right to terminate their contract with our Enterprise business and/or financial penalty provisions payable by our Enterprise business. Moreover, to the extent that any system failure or similar event results in damages to our customers or their businesses, these customers could seek significant compensation from us for their losses and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address. We also rely on facilities, components and services supplied by third parties and our business may be materially adversely affected to the extent these components or services do not meet our expectations or these third parties cease to provide the services or facilities. In particular, a decision by any of our third party hosting providers to close a facility that we use could cause system interruptions and delays, result in loss of critical data and cause lengthy interruptions in our services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of systems failures and similar events.

Our PayPal website has suffered significant intermittent unavailability , including, for example, transaction failures which affected some customers in the United Kingdom for over 24 hours in August 2014 and mobile login failures which affected some customers for several hours in April 2014. Reliability is particularly critical for PayPal because the full-time availability of PayPal is critical to its goal of gaining widespread acceptance among consumers and merchants for digital and mobile payments. These efforts are costly and time consuming, involve significant technical risk and may divert our resources from new features and products, and there can be no guarantee that these efforts will succeed. Because PayPal is a regulated financial institution, frequent or persistent site interruptions could lead to regulatory scrutiny, significant fines and penalties, or mandatory and costly changes to PayPal's business practices, and ultimately could cause PayPal to lose existing licenses it needs to operate or prevent it from obtaining additional licenses that it needs to expand.

We also rely on facilities, components and services supplied by third parties and our business may be materially adversely affected to the extent these components or services do not meet our expectations or these third parties cease to provide the services or facilities. In particular, a decision by any of our third party hosting providers to close a facility that we use could cause system interruptions and delays, result in loss of critical data and cause lengthy interruptions in our services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of systems failures and similar events.

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

We have acquired a significant number of businesses of varying size and scope, technologies, services, and products. We also expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions, and dispositions of businesses, technologies, services, products, and other assets, as well as strategic investments and joint ventures. In that regard, in January 2015, we announced that we are exploring strategic alternatives for our Enterprise business, including a possible sale or partial sale, or initial public offering, although there can be no assurance that any such transaction will be consummated.

These transactions, and in particular the January 2015 announcement regarding our Enterprise business, may involve significant challenges and risks, including:

•

- the potential loss of key customers, merchants, vendors and other key business partners of the companies we acquire, or dispose of, following and continuing after announcement of our transaction plans;
- declining employee morale and retention issues affecting employees of companies that we acquire or dispose of, which may result from changes in compensation, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- difficulty making new and strategic hires of new employees;
- diversion of management time and a shift of focus from operating the businesses to the transaction, and in the case of an acquisition, integration and administration;
- the need to integrate the operations, systems (including accounting, management, information, human resource and other administrative systems), technologies, products and personnel of each acquired company, which is an inherently risky and potentially lengthy and costly process;
- the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise as a result;
- the need to implement or improve controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition may have lacked such controls, procedures and policies or whose controls, procedures and policies did not meet applicable legal and other standards;

- risks associated with our expansion into new international markets;
- derivative lawsuits resulting from the acquisition;
- liability for activities of the acquired company before the acquisition, including intellectual property and other litigation claims or disputes, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities;
- the potential loss of key employees following the transaction;
- the acquisition of new customer and employee personal information, which in and of itself may require regulatory approval and or additional controls, policies and procedures and subject us to additional exposure; and
- our dependence on the acquired business' accounting, financial reporting, operating metrics and similar systems, controls and processes and the risk that errors or irregularities in those systems, controls and processes will lead to errors in our consolidated financial statements or make it more difficult to manage the acquired business.

At any given time we may be engaged in discussions or negotiations with respect to one or more of these types of transactions and any of these transactions could be material to our financial condition and results of operations. In addition, it may take us longer than expected to fully realize the anticipated benefits of these transactions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results. Any acquisitions or dispositions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), liabilities, and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders.

We have made certain investments, including through joint ventures, in which we have a minority equity interest and/or lack management and operational control. The controlling joint venture partner in a joint venture may have business interests, strategies, or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture. Our strategic investments may also expose us to additional risks. Any circumstances, which may be out of our control, that adversely affect the value of our investments, or cost resulting from regulatory action or lawsuits in connection with our investments, could harm our business or negatively impact our financial results.

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

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

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

A number of third parties provide services to us or to our users. Such services include seller tools that automate and manage listings, merchant tools that manage listings and interface with inventory management software, storefronts that help our users list items and shipping providers that deliver goods sold on our platform, among others. PayPal is dependent on caching services that make its sites load faster, the processing companies and banks that link PayPal to the payment card, and bank clearing networks to process transactions, among others. PayPal is subject to, among other things, increases in interchange fees and assessments that payment card networks such as Visa and MasterCard charge for each transaction using one of their cards (which PayPal's payment card processors have the right to pass on to PayPal), as well as changes in payment card network operating rules, including special operating rules for Internet payment services (such as PayPal). Similarly, PayPal relies on unaffiliated lenders to make the consumer and other loans originated through the PayPal Credit products and also relies heavily on third parties to operate its services, including merchant processors and payment gateways to process transactions. Financial or regulatory issues, labor issues (e.g., strikes, lockouts, or work stoppages), or other problems that prevent these companies from providing services to us or our users could harm our business.

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

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

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

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

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

Risk Factors Related to the Planned Separation

Our plan to separate PayPal into an independent publicly traded company is subject to various risks and uncertainties and may not be completed in accordance with the expected plans or anticipated timeline or at all.

In September 2014, we announced a plan to separate PayPal into an independent public company. We expect to complete the separation in the second half of 2015, subject to Board approval of the final terms of the separation and market, regulatory, and certain other conditions. We also announced that following separation, Devin Wenig, currently president of Marketplaces, will become CEO of eBay, and that Dan Schulman, currently president of PayPal, will become CEO of the stand-alone PayPal company.

Unanticipated developments, including changes in the competitive conditions of eBay's and PayPal's respective markets, possible delays in obtaining various tax opinions or rulings, regulatory approvals or clearances, uncertainty of the financial markets, and challenges in establishing infrastructure or processes and executing the separation could delay or prevent the completion of the proposed separation, or cause the proposed separation to occur on terms or conditions that are different or less favorable than expected.

We expect that the process of completing the proposed separation will be time-consuming and involve significant costs and expenses, which may be significantly higher than what we currently anticipate and may not yield a discernible benefit if the separation is not completed. Executing the proposed separation will require significant time and attention from our senior management and key employees, which could distract them from operating our business, disrupt operations, and result in the loss of business opportunities, which could harm our business.

We may also experience increased difficulties in attracting, retaining and motivating key employees during the pendency of the separation and following its completion, which could harm our businesses.

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

Even if the proposed separation is completed, we may not realize some or all of the anticipated benefits from the separation and the separation may in fact adversely affect our business. As independent, publicly traded companies, eBay and PayPal will be smaller, less diversified companies with a narrower business focus and may be more vulnerable to changing market conditions, which could materially and adversely affect their respective businesses, financial condition and results of operations. Separating the businesses may also eliminate or reduce synergies that existed prior to the separation, which could harm each business.

There can be no assurance that the combined value of the common stock of the two publicly-traded companies following the completion of the proposed separation will be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred.

The proposed separation may result in disruptions to, and negatively impact our relationships with, our customers and other business partners and may make it more difficult to attract and retain qualified employees.

Uncertainty related to the proposed separation may lead customers and other parties with which we currently do business or may do business in the future to terminate or attempt to negotiate changes in existing business relationships, or consider entering into business relationships with parties other than us. These disruptions could have a material and adverse effect on our businesses, financial condition, results of operations, and prospects. The proposed separation and related uncertainties may also make it more difficult for us to attract new employees, including those necessary to successfully operate two public companies post-separation, or to retain current employees and may make our stock options and other equity awards less attractive to current and prospective employees. The effect of such disruptions could be exacerbated by any delays in the completion of the separation. In addition, as independent stand-alone entities, eBay and PayPal may be unable to obtain goods, services, financing and technology at prices or on terms as favorable as those obtained by eBay Inc. prior to the separation.

The potential negative impact of the events described above could not only adversely affect the individual eBay and PayPal businesses following their separation into independent companies but could also adversely affect our company as currently constituted.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Stock repurchase activity during the three months ended March 31, 2015 was as follows:

Period Ended	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet be Purchased Under the Programs [b]
January 31, 2015	14,825,797	(a)	14,825,797	$1,984,542,829
February 28, 2015	—	$—	—	$1,984,542,829
March 31, 2015	2,732,076	(a)	2,732,076	$1,984,542,829
	17,557,873		17,557,873	

(a) At the end of January 2015, we entered into an accelerated share repurchase agreement (ASR) to purchase $1 billion of our common stock. 14,825,797 shares were delivered in January 2015. In March 2015, the purchase period for this ASR ended and an additional 2,732,076 shares were delivered. In total, 17,557,873 shares were delivered under the January 2015 ASR at an average purchase price of $56.95 per share.

(b) In January 2014, our Board authorized a stock repurchase program that provided for the repurchase of up to an additional $5 billion of our common stock, with no expiration from the date of authorization. In January 2015, our Board authorized an additional $2 billion stock repurchase program, with no expiration from the date of authorization. The stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to make opportunistic repurchases of our common stock to reduce our outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions (including accelerated share repurchase transactions) or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives.

Our stock repurchase programs may be limited or terminated at any time without prior notice. The timing and actual number of shares repurchased will depend on a variety of factors, including corporate and regulatory requirements, price and other market conditions and management's determination as to the appropriate use of our cash.

As of March 31, 2015, a total of approximately $2.0 billion remained available for future repurchases of our common stock under our January 2015 stock repurchase program. For further details, please see "Part I, Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Stock Repurchases."

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

The information required by this Item is set forth in the Index of Exhibits that follows the signature page of this Quarterly Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	eBay Inc. Principal Executive Officer: By: /s/ John J. Donahoe John J. Donahoe President and Chief Executive Officer
Date: April 23, 2015	Principal Financial Officer: By: /s/ Robert H. Swan Robert H. Swan Senior Vice President, Finance and Chief Financial Officer
Date: April 23, 2015	Principal Accounting Officer: By: /s/ Brian J. Doerger Brian J. Doerger Vice President, Chief Accounting Officer
Date: April 23, 2015	

INDEX TO EXHIBITS

Exhibit 12.01	Statement regarding computation of ratio of earnings to fixed charges.
Exhibit 31.01	Certification of Registrant's Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.02	Certification of Registrant's Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.01	Certification of Registrant's Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.02	Certification of Registrant's Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document