EBAY INC
Form 10-Q
July 19, 2012

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 June 30, 2012

OR

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

For the transition period from _______ to _______

Commission file number 000-24821

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

Delaware (State or other jurisdiction of incorporation or organization)	77-0430924 (I.R.S. Employer Identification Number)
2145 Hamilton Avenue San Jose, California	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 July 16, 2012, there were 1,288,670,071 shares of the registrant's common stock, $0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

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

	June 30, 2012	December 31, 2011
	(In millions, except par value amounts)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,038	$ 4,691
Short-term investments	1,716	1,238
Accounts receivable, net	648	682
Loans and interest receivable, net	1,621	1,501
Funds receivable and customer accounts	4,295	3,968
Other current assets	960	581
Total current assets	13,278	12,661
Long-term investments	2,630	2,453
Property and equipment, net	2,238	1,986
Goodwill	8,417	8,365
Intangible assets, net	1,272	1,406
Other assets	423	449
Total assets	$ 28,258	$ 27,320
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 564	$ 565
Accounts payable	257	282
Funds payable and amounts due to customers	4,295	3,968
Accrued expenses and other current liabilities	1,468	1,511
Deferred revenue	137	110
Income taxes payable	79	298
Total current liabilities	6,800	6,734
Deferred and other tax liabilities, net	956	1,073
Long-term debt	1,518	1,525
Other liabilities	72	58
Total liabilities	9,346	9,390
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value; 3,580 shares authorized; 1,288 and 1,286 shares outstanding	2	2
Additional paid-in capital	11,545	11,145
Treasury stock at cost, 264 and 249 shares	(7,750)	(7,155)
Retained earnings	14,651	13,389
Accumulated other comprehensive income	464	549
Total stockholders' equity	18,912	17,930
Total liabilities and stockholders' equity	$ 28,258	$ 27,320

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

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eBay Inc.
CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions, except per share amounts)			
	(Unaudited)			
Net revenues	$3,398	$2,760	$6,675	$5,306
Cost of net revenues	987	773	1,970	1,502
Gross profit	2,411	1,987	4,705	3,804
Operating expenses:				
Sales and marketing	717	608	1,394	1,141
Product development	394	297	768	572
General and administrative	390	392	762	685
Provision for transaction and loan losses	131	118	265	225
Amortization of acquired intangible assets	84	53	168	97
Total operating expenses	1,716	1,468	3,357	2,720
Income from operations	695	519	1,348	1,084
Interest and other, net	38	28	69	31
Gain (loss) on divested businesses	118	(256)	118	(256)
Income before income taxes	851	291	1,535	859
Provision for income taxes	(159)	(8)	(273)	(100)
Net income	$692	$283	$1,262	$759
Net income per share:				
Basic	$0.54	$0.22	$0.98	$0.59
Diluted	$0.53	$0.22	$0.96	$0.58
Weighted average shares:				
Basic	1,291	1,297	1,290	1,297
Diluted	1,309	1,315	1,309	1,317

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

eBay Inc.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions) (Unaudited)			
Net income	$692	$283	$1,262	$759
Other comprehensive income (loss), before tax and net of reclassification adjustments:				
Foreign currency translation	(328)	163	(111)	517
Unrealized gains (losses) on investments, net	(180)	(18)	37	103
Unrealized gains (losses) on hedging activities, net	42	1	(17)	(42)
Other comprehensive income (loss), before tax	(466)	146	(91)	578
Tax benefit (provision) related to items of other comprehensive income	66	7	6	(38)
Other comprehensive income (loss), net tax	(400)	153	(85)	540
Comprehensive income	$292	$436	$1,177	$1,299

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

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eBay Inc.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30,	
	2012	2011
	(In millions) (Unaudited)	
Cash flows from operating activities:		
Net income	$1,262	$759
Adjustments:		
Provision for transaction and loan losses	265	225
Depreciation and amortization	571	401
Stock-based compensation	238	238
(Gain) loss on divested businesses	(118)	256
Gain on acquisition of a business	—	(17)
Changes in assets and liabilities, net of acquisition effects	(919)	(380)
Net cash provided by operating activities	1,299	1,482
Cash flows from investing activities:		
Purchases of property and equipment, net	(599)	(388)
Changes in principal loans receivable, net	(155)	(99)
Purchases of investments	(1,344)	(1,229)
Maturities and sales of investments	629	860
Acquisitions, net of cash acquired	(133)	(2,847)
Proceeds from divested business, net of cash disposed	144	—
Other	(16)	(102)
Net cash used in investing activities	(1,474)	(3,805)
Cash flows from financing activities:		
Proceeds from issuance of common stock	225	156
Repurchases of common stock	(595)	(781)
Excess tax benefits from stock-based compensation	68	59
Tax withholdings related to net share settlements of restricted stock awards and units	(132)	(114)
Net borrowings under commercial paper program	—	700
Repayment of acquired debt	—	(186)
Funds receivable and customer accounts	(328)	(763)
Funds payable and amounts due to customers	328	763
Net cash (used in) provided by financing activities	(434)	(166)
Effect of exchange rate changes on cash and cash equivalents	(44)	178
Net (decrease) increase in cash and cash equivalents	(653)	(2,311)
Cash and cash equivalents at beginning of period	4,691	5,577
Cash and cash equivalents at end of period	$4,038	$3,266
Supplemental cash flow disclosures:		
Cash paid for interest	$15	$14
Cash paid for income taxes	$639	$136
Non-cash investing and financing activities:		
Common stock options assumed pursuant to acquisition	$—	$25
Note receivable from divested business	$—	$287

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

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eBay Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — The Company and Summary of Significant Accounting Policies

The Company

eBay Inc. (“eBay”) was incorporated in California in May 1996, and reincorporated in Delaware in April 1998. eBay is a global commerce platform and payments leader. We enable commerce through eBay, the world's largest online marketplace, which allows users to buy and sell in nearly every country on earth; through PayPal, which enables individuals and businesses to securely, easily and quickly send and receive online payments; and through GSI, which facilitates ecommerce, multichannel retailing and interactive marketing for global enterprises. X.commerce brings together the technology assets and developer communities of eBay, PayPal and Magento, an ecommerce storefront platform, to support eBay Inc.'s mission of enabling commerce. We also reach millions of people through specialized marketplaces such as StubHub, the world's largest ticket marketplace, and eBay classifieds sites, which together have a presence in more than 1,000 cities around the world.

We have three reportable business segments: Marketplaces, Payments and GSI. Our Marketplaces segment includes our eBay.com platform and its localized counterparts and our other online trading platforms, such as our online classifieds sites and StubHub. Our Payments segment is comprised of PayPal, Bill Me Later and Zong. Our GSI segment consists of GSI Commerce, Inc. ("GSI"), and was added upon the completion of our acquisition of GSI on June 17, 2011. The results of our GSI segment have been included in our consolidated results of operations from the acquisition date.

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 in order to offer our Payments services globally. Changes in regulations, non-compliance with regulations or loss of key bank or financial institution partners could have a significant adverse impact on our ability to operate our business; therefore, we monitor these areas closely to mitigate 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.

Use of estimates

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

Principles of consolidation and basis of presentation

The accompanying condensed financial statements are consolidated and include the financial statements of eBay Inc., our wholly and majority-owned subsidiaries and variable interest entities ("VIE") if we were the primary beneficiary. Ownership interests of minority interests are recorded as a noncontrolling interest. All significant intercompany balances and transactions have been eliminated in consolidation. 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 consolidated statement of income to the extent dividends are received.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011. We have evaluated all subsequent events through the date the financial statements were issued.

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

Note 2 — Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted net income per share by application of the treasury stock method. The calculation of diluted net income per share excludes all anti-dilutive shares. The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions, except per share amounts)			
Numerator:				
Net income	$692	$283	$1,262	$759
Denominator:				
Weighted average common shares - basic	1,291	1,297	1,290	1,297
Dilutive effect of equity incentive plans	18	18	19	20
Weighted average common shares - diluted	1,309	1,315	1,309	1,317
Net income per share:				
Basic	$0.54	$0.22	$0.98	$0.59
Diluted	$0.53	$0.22	$0.96	$0.58
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	8	18	12	16

Note 3 - Business Combinations and Divestitures

During the six months ended June 30, 2012, we completed two acquisitions, which are included in our Marketplaces segment, for aggregate purchase consideration of approximately $138 million, consisting primarily of cash. The allocation of the purchase consideration resulted in net liabilities of $20 million, purchased intangible assets of $67 million and goodwill of $92 million. The allocations of the purchase price for these acquisitions has been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available. The consolidated financial statements include the operating results of the acquired businesses since the respective dates of the acquisitions. Pro forma results of operations have not been presented because the effect of the acquisitions were not material to our financial results.

In May 2012, we completed the sale of Rent.com for proceeds of approximately $145 million resulting in a gain of approximately $118 million. The results of operations from Rent.com are not material to any period presented.

GSI

We acquired GSI on June 17, 2011. In conjunction with the acquisition of GSI, we immediately divested 100 percent of GSI's licensed sports merchandise business and 70 percent of GSI's ShopRunner and RueLaLa businesses (together, the "divested businesses").

Pro forma financial information

The unaudited pro forma financial information in the table below summarizes the combined results of our operations and those of GSI for the period shown as though the acquisition of GSI and the sale of the divested businesses had occurred as of the beginning of fiscal year 2011. The unaudited pro forma financial information for the period presented includes the business combination accounting effects of the acquisition, including amortization charges from acquired intangible assets. The unaudited pro forma financial information presented below is for informational purposes only, is subject to a number of estimates, assumptions and other uncertainties, and is not indicative of the results of operations that would have been achieved if the acquisition and divestiture had taken place at January 1, 2011. The unaudited pro forma financial information is as follows (in millions, except per share amounts):

	Six Months Ended June 30, 2011
Total revenues	$5,692
Net income	700
Basic earnings per share	0.54
Diluted earnings per share	$0.53

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

Note 4 — Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and adjustments to those balances for each of our reportable segments during the six months ended June 30, 2012:

	December 31, 2011 (In millions)	Goodwill Acquired	Disposals	Adjustments	June 30, 2012
Reportable segments:					
Marketplaces	$4,537	$92	$(21)	$(1)	$4,607
Payments	2,515	—	—	—	2,515
GSI	1,293	—	—	(18)	1,275
Corporate and other	47	—	—	1	48
	$8,392	$92	$(21)	$(18)	$8,445

Investments accounted for under the equity method of accounting are classified on our balance sheet as long-term investments. Such investment balances include any related goodwill. As of June 30, 2012 and December 31, 2011, the goodwill related to our equity method investments was approximately $27 million.

The adjustments to goodwill during the six months ended June 30, 2012 were due primarily to changes in tax items and foreign currency translation.

Intangible Assets

The components of identifiable intangible assets are as follows:

	June 30, 2012				December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
	(In millions, except years)							
Intangible assets:								
Customer lists and user base	$1,627	$ (865)	$762	5	$1,633	$(787)	$846	5
Trademarks and trade names	715	(499)	216	5	730	(469)	261	5
Developed technologies	518	(281)	237	4	498	(249)	249	3
All other	199	(142)	57	4	182	(132)	50	4
	$3,059	$ (1,787)	$1,272		$3,043	$(1,637)	$1,406	

Amortization expense for intangible assets was $109 million and $66 million for the three months ended June 30, 2012 and 2011, respectively. Amortization expense for intangible assets was $218 million and $123 million for the six months ended June 30, 2012 and 2011, respectively.

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

Note 5 — Segments

We have three reporting segments: Marketplaces, Payments and GSI. We allocate resources to and assess the performance of each reporting 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 operating segments.

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

- results of operations of our X.commerce initiative, which supports our businesses;
- corporate management costs, such as human resources, finance and legal, not allocated to our segments;
- amortization of intangible assets;
- restructuring charges; and
- stock based compensation expense.

The following tables summarize the financial performance of our reporting segments and reconciliation to our consolidated operating results for the periods reflected below (data for the three and six months ended June 30, 2011 include GSI since the date of acquisition):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Net Revenue				
Marketplaces				
Net transaction revenues	$1,491	$1,350	$2,916	$2,634
Marketing services and other revenues	323	313	626	583
	1,814	1,663	3,542	3,217
Payments				
Net transaction revenues	1,234	991	2,450	1,934
Marketing services and other revenues	123	82	216	131
	1,357	1,073	2,666	2,065
GSI				
Net transaction revenues	164	16	346	16
Marketing services and other revenues	57	8	112	8
	221	24	458	24
Corporate and other				
Marketing services and other revenues	10	—	16	—
Elimination of inter-segment net revenue (1)	(4)	—	(7)	—
Total consolidated net revenue	$3,398	$2,760	$6,675	$5,306
Operating income (loss)				
Marketplaces	$719	$645	$1,388	$1,274
Payments	350	235	695	456
GSI	10	—	33	—
Corporate and other	(384)	(361)	(768)	(646)
Total operating income (loss)	$695	$519	$1,348	$1,084

(1) Represents revenue generated between our reportable segments.

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

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 June 30, 2012 and December 31, 2011:

Description	Balance as of June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In millions)		
Assets:			
Cash and cash equivalents	$4,038	$4,038	$—
Short-term investments:			
Restricted cash	17	17	—
Corporate debt securities	990	—	990
Government and agency securities	1	—	1
Time deposits	92	—	92
Equity instruments	616	616	—
Total short-term investments	1,716	633	1,083
Derivatives	96	—	96
Long-term investments:			
Corporate debt securities	2,393	—	2,393
Government and agency securities	57	—	57
Total long-term investments	2,450	—	2,450
Total financial assets	$8,300	$4,671	$3,629
Liabilities:			
Derivatives	$39	$—	$39

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

Description	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In millions)		
Assets:			
Cash and cash equivalents	$4,691	$4,691	$—
Short-term investments:			
Restricted cash	20	20	—
Corporate debt securities	448	—	448
Government and agency securities	42	—	42
Time deposits	82	—	82
Equity instruments	646	646	—
Total short-term investments	1,238	666	572
Derivatives	112	—	112
Long-term investments:			
Restricted cash	1	1	—
Corporate debt securities	2,186	—	2,186
Government and agency securities	71	—	71
Total long-term investments	2,258	1	2,257
Total financial assets	$8,299	$5,358	$2,941
Liabilities:			
Derivatives	$60	$—	$60

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 or identical instruments in less active markets. The majority of our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as equity prices, interest rate yield curves, option volatility and currency rates. Our derivative instruments are primarily short-term in nature, generally one month to one year in duration. 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 and money market funds.

In addition to the long-term investments noted above, we had approximately $175 million and $190 million of cost and equity method investments included in long-term investments on our condensed consolidated balance sheet at June 30, 2012 and our consolidated balance sheet at December 31, 2011, respectively. At June 30, 2012 and December 31, 2011, we also held $5 million of time deposits classified as held to maturity, which are recorded at amortized cost.

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

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

Note 7 — Derivative Instruments

Fair Value of Derivative Contracts

The fair value of our outstanding derivative instruments as of June 30, 2012 and December 31, 2011 was as follows:

	Derivative Assets Reported in Other Current Assets		Derivative Liabilities Reported in Other Current Liabilities	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
	(In millions)			
Foreign exchange contracts designated as cash flow hedges	$60	$75	$5	$3
Foreign exchange contracts not designated as hedging instruments	24	29	34	57
Other contracts not designated as hedging instruments	12	8	—	—
Total fair value of derivative instruments	$96	$112	$39	$60

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 June 30, 2012 and December 31, 2011, and the impact of designated derivative contracts on accumulated other comprehensive income for the six months ended June 30, 2012:

	December 31, 2011	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)	June 30, 2012
	(In millions)			
Foreign exchange contracts designated as cash flow hedges	$72	$24	$41	$55

The following table summarizes the activity of derivative contracts that qualify for hedge accounting as of June 30, 2011 and December 31, 2010, and the impact of designated derivative contracts on accumulated other comprehensive income for the six months ended June 30, 2011:

	December 31, 2010	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Amount of gain (loss) reclassified from accumulated other comprehensive income	June 30, 2011

			to net revenue and operating expense (effective portion)	
	(In millions)			
Foreign exchange contracts designated as cash flow hedges	$ 14	$ (41)	$ 2	$ (29)

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

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 derivative instruments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	$14	$(10)	$26	$(17)
Foreign exchange contracts designated as cash flow hedges recognized in operating expenses	4	(5)	9	(5)
Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net	(11)	—	(8)	(7)
Other contracts not designated as hedging instruments recognized in interest and other, net	—	—	4	—
Total gain (loss) recognized from derivative contracts in the condensed consolidated statement of income	$7	$(15)	$31	$(29)

Note 8 - Debt

The following table summarizes the carrying value of our outstanding debt:

	Coupon Rate	Carrying Value as of June 30, 2012	Effective Interest Rate	Carrying Value as of December 31, 2011	Effective Interest Rate
	(In millions, except percentages)				
Long-Term Debt					
Senior notes due 2013	0.875%	$400	0.946%	$400	0.946%
Senior notes due 2015	1.625%	598	1.703%	598	1.703%
Senior notes due 2020	3.250%	498	3.319%	497	3.319%
Total senior notes		1,496		1,495	
Note payable		14		15	
Capital lease obligations		8		15	
Total long-term debt		$1,518		$1,525	
Short-Term Debt					
Commercial paper		$550		$550	
Note payable		2		2	
Capital lease obligations		12		13	
Total short-term debt		564		565	
Total Debt		$2,082		$2,090	

Senior Notes

The effective rates for the fixed-rate debt include the interest on the notes and the accretion of the discount. Interest on these notes is payable semiannually on April 15 and October 15. Interest expense associated with these notes, including amortization of debt issuance costs, during the three and six months ended June 30, 2012 was approximately $8 million and $16 million, respectively. At June 30, 2012, the estimated fair value of all these senior notes included in long-term debt was approximately $1.5 billion based on market prices on less active markets (Level 2).

The indenture pursuant to which the senior notes were issued includes customary covenants that, among other things, 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.

Notes Payable
Notes payable consists primarily of a note that bears interest at 6.3% per annum and has a maturity date of December 2015.
Capital Lease Obligations
We acquired certain warehouse equipment and computer hardware and software under capital leases as part of our acquisition of GSI. The capital leases have maturity dates ranging from July 2012 to February 2016 and bear interest at rates ranging from 3% to 9% per annum. The present value of future minimum capital lease payments as of June 30, 2012 was as follows (in millions):

Gross capital lease obligations	$21	
Imputed interest	(1	)
Total present value of future minimum capital lease payments	$20	

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. As of June 30, 2012, $550 million aggregate principal amount of commercial paper notes were outstanding, with a weighted average interest rate of 0.19% per annum, and a weighted average remaining term of 79 days.
Credit Agreement
As of June 30, 2012, no borrowings or letters of credit were outstanding under our $3 billion credit agreement. As described above, we have a $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 June 30, 2012, $1 billion of borrowing capacity was available for other purposes permitted by the credit agreement.
As of June 30, 2012, we were in compliance with all covenants in our outstanding debt instruments.

Note 9 — Commitments and Contingencies

Commitments

As of June 30, 2012, approximately $11 billion of unused credit was available to Bill Me Later accountholders. The individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institution that is the issuer of Bill Me Later credit products based on, among other things, account usage and customer creditworthiness. Currently, when a consumer makes a purchase using a Bill Me Later 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 receivables related to the consumer loans extended by the chartered financial institution and, as a result of the purchase, bear the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each customer account, we own the related receivable, and Bill Me Later is responsible for all servicing functions related to the account.

Litigation and Other Legal Matters

Overview
We are involved in legal proceedings on an ongoing basis. 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. Amounts accrued for legal proceedings for which we believe a loss is probable were not material for the six months ended June 30, 2012. Except as otherwise noted, we have concluded that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our accruals are also not material. 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 of

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losses 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 legal proceeding, we have disclosed that fact.

In assessing the materiality of a legal 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.

Specific Matters

In August 2006, Louis Vuitton Malletier and Christian Dior Couture filed two lawsuits in the Paris Court of Commerce against eBay Inc. and eBay International AG. Among other things, the complaint alleged that we violated French tort law by negligently broadcasting listings posted by third parties offering counterfeit items bearing plaintiffs' trademarks and by purchasing certain advertising keywords. Around September 2006, Parfums Christian Dior, Kenzo Parfums, Parfums Givenchy, and Guerlain Société also filed a lawsuit in the Paris Court of Commerce against eBay Inc. and eBay International AG. The complaint alleged that we had interfered with the selective distribution network the plaintiffs established in France and the European Union by allowing third parties to post listings offering genuine perfumes and cosmetics for sale on our websites. In June 2008, the Paris Court of Commerce ruled that eBay and eBay International AG were liable for failing to prevent the sale of counterfeit items on its websites that traded on plaintiffs' brand names and for interfering with the plaintiffs' selective distribution network. The court awarded plaintiffs approximately EUR 38.6 million in damages and issued an injunction (enforceable by daily fines of up to EUR 100,000) prohibiting all sales of perfumes and cosmetics bearing the Dior, Guerlain, Givenchy and Kenzo brands over all worldwide eBay sites to the extent that they are accessible from France. We appealed this decision, and in September 2010, the Paris Court of Appeal reduced the damages award to EUR 5.7 million and modified the injunction. We further appealed this decision to the French Supreme Court, and in May 2012, the French Supreme Court ruled that the appeal court should not have assumed jurisdiction upon activity that took place on the eBay.com site and that the injunction was too broad insofar as it did not exclude private sales. The court also noted that the appeal court had not sufficiently dealt with assertions that the plaintiffs' distribution contracts were not valid. Those matters will now be remanded to the Paris Court of Appeal. In 2009, plaintiffs filed an action regarding our compliance with the original injunction, and in November 2009, the court awarded the plaintiffs EUR 1.7 million (the equivalent of EUR 2,500 per day) and indicated that as a large Internet company we should do a better job of enforcing the injunction. Parfums Christian Dior has filed another motion relating to our compliance with the injunction. We have taken measures to comply with the injunction and have appealed these rulings, noting, among other things, the modification of the initial injunction. In light of the French Supreme Court ruling mentioned above, we asked the court to stay proceedings with respect to enforcement of the injunction pending the retrial of the matters on appeal, and this request has been granted. However, these and similar suits may force us to modify our business practices, which could lower our revenue, increase our costs, or make our websites less convenient to our customers. Any such results could materially harm our business. Other brand owners have also filed suit against us or have threatened to do so in numerous different jurisdictions, seeking to hold us liable for, among other things, alleged counterfeit items listed on our websites by third parties, “tester” and other not for resale consumer products listed on our websites by third parties, alleged misuse of trademarks in listings, alleged violations of selective distribution channel laws, alleged violations of parallel import laws, alleged non-compliance with consumer protection laws and in connection with paid search advertisements. We have prevailed in some of these suits, lost in others, and many are in various stages of appeal. We continue to believe that we have meritorious defenses to these suits and intend to defend ourselves vigorously.

In May 2009, the U.K. High Court of Justice ruled in the case filed by L'Oréal SA, Lancôme Parfums et Beauté & Cie, Laboratoire Garnier & Cie and L'Oréal (UK) Ltd against eBay International AG, other eBay companies, and several eBay sellers (No. HC07CO1978) that eBay was not jointly liable with the seller co-defendants as a joint tortfeasor, and indicated that it would certify to the European Court of Justice ("ECJ") questions of liability for the use of L'Oréal trademarks, hosting liability, and the scope of a possible injunction against intermediaries. On July 12, 2011 the ECJ ruled on the questions certified by the U.K. High Court of Justice. It held that (a) brand names could be used by marketplaces as keywords for paid search advertising without violating a trademark owner's rights if it were clear to consumers that the goods reached via the key word link were not being offered by the trademark owner or its designees but instead by third parties, (b) that marketplaces could invoke the limitation from liability provided by Article 14 of the ecommerce directive if they did not take such an active role with respect to the listings in question that the limitation would not be available, but that even where the limitation was available, the marketplace could be liable if it had awareness (through notice or its own investigation) of the illegality of the listings, (c) that a marketplace would be liable in a specific jurisdiction only if the offers on the site at issue were targeting that jurisdiction, a question of fact, (d) that injunctions may be issued to a marketplace in connection with infringing third party

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content, but that such injunctions must be proportionate and not block legitimate trade and (e) that trademark rights can only be evoked by a rights owner as a result of a seller's commercial activity as opposed to private activity. The matter will now return to the U.K. High Court of Justice for further action in light of the ECJ opinion. The case was originally filed in July 2007. L'Oréal's complaint alleged that we were jointly liable for trademark infringement for the actions of the sellers who allegedly sold counterfeit goods, parallel imports and testers (not for resale products). Additionally, L'Oréal claimed that eBay's use of L'Oréal brands on its website, in its search engine and in sponsored links, and purchase of L'Oréal trademarks as keywords, constitute trademark infringement. The suit sought an injunction preventing future infringement, full disclosure of the identity of all past and present sellers of infringing L'Oréal goods, and a declaration that our Verified Rights Owner (VeRO) program as then operated was insufficient to prevent such infringement. The scope of a possible injunction claimed is to be specified after the trial upon remand from the ECJ.

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 have sued IAC over this breach in several lawsuits in Korean courts and more may do so in the future (including after final determination of liability). Trial for a group of four representative suits began in August 2009 in the Seoul District Court, and trial for a group of 23 other suits began in September 2009 in the Seoul District Court. 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. Such precedents have involved payments of up to approximately $200 per user. In January 2010, the Seoul District Court ruled that IAC had met its obligations with respect to defending the site from intrusion and, accordingly, had no liability for the breach. This ruling has been appealed by approximately 34,000 plaintiffs to the Seoul High Court, where it is currently being heard de novo. A decision is expected in the second half of 2012 or in early 2013.

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 GSI businesses as our services continue to expand in scope and complexity. Such claims may be brought directly 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 businesses 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 range and geographical scope of our services and become subject to laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries like ourselves are either unclear or less favorable. We believe that additional lawsuits alleging that we have violated patent, copyright or trademark laws will be filed against us. Intellectual property claims, whether meritorious or not, are time consuming and costly to defend and resolve, could require expensive changes in our methods of doing business, or could require us to enter into costly royalty or licensing agreements on unfavorable terms.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business, including suits by our users (individually or as class actions) alleging, among other things, improper disclosure of our prices, rules or policies, that our prices, rules, policies or customer/user agreements violate applicable law, or that we have not acted in conformity with such prices, rules, policies or agreements. The number and significance of these disputes and inquiries are increasing as our company has grown larger, our businesses have expanded in scope 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

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performance under the subject agreement. In certain cases, we have agreed to provide indemnification for intellectual property infringement. GSI has provided in many of its major online commerce 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. 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. In connection with the sale of Skype Technologies, S.A. ("Skype") in November 2009, we made certain customary warranties to the buyer in the purchase agreement. Our liability to the buyer for inaccuracies in these warranties is generally subject to certain limitations. With respect to certain specified litigation matters involving Skype that were pending as of the closing of the transaction, we also agreed, among other things, to bear 50% of the cost of any monetary judgment that is rendered in respect of those matters. 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 June 30, 2012, 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.

In Europe, we have two cash pooling arrangements with a financial institution for cash management purposes. These arrangements allow for cash withdrawals from this financial institution based upon our aggregate operating cash balances held in Europe 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 the financial institution as a basis for calculating our net interest expense or income. As of June 30, 2012, we had a total of $5 billion in cash withdrawals offsetting our $5 billion in Aggregate Cash Deposits held within the same financial institution under these cash pooling arrangements.

Based on differences in regulatory requirements and commercial law in the jurisdictions where PayPal operates, PayPal holds customer balances either as direct claims against PayPal or as an agent or custodian on behalf of PayPal's customers. Customer funds held by PayPal as an agent or custodian on behalf of our customers are not reflected in our condensed consolidated balance sheet. These off-balance sheet funds totaled approximately $3 billion as of June 30, 2012 and December 31, 2011. These funds include funds held on behalf of U.S. customers that are deposited in bank accounts insured by the Federal Deposit Insurance Corporation (subject to applicable limits).

Note 10 — Stock Repurchase Programs

In September 2010, our Board of Directors authorized a stock repurchase program that provides for the repurchase of up to $2 billion of our common stock, with no expiration from the date of authorization. In June 2012, our Board authorized an additional stock repurchase program that provides for the repurchase of up to an additional $2 billion of our common stock, with no expiration from the date of authorization. These stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs. The stock repurchase activity under our stock repurchase programs during the first six months of 2012 is summarized as follows:

	Shares Repurchased	Average Price per Share	Value of Shares Repurchased	Remaining Amount Authorized
	(In millions, except per share amounts)			
Balance at January 1, 2012	35	$31.55	$1,119	$881
Authorization of additional plan in June 2012				2,000
Repurchase of common stock	16	37.16	595	(595)
Balance at June 30, 2012	51	$33.30	$1,714	$2,286

These repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired.

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Note 11 — Stock-Based Plans

Stock Option Activity

The following table summarizes stock option activity for the six-month period ended June 30, 2012:

	Options (In millions)
Outstanding at January 1, 2012	40
Granted and assumed	2
Exercised	(7)
Forfeited/expired/canceled	(2)
Outstanding at June 30, 2012	33

The weighted average exercise price of stock options granted during the period was $36.34 per share and the related weighted average grant date fair value was $11.10 per share.

Restricted Stock Unit Activity

The following table summarizes restricted stock unit ("RSU") activity for the six-month period ended June 30, 2012:

	Units (In millions)
Outstanding at January 1, 2012	40
Awarded and assumed	16
Vested	(12)
Forfeited	(2)
Outstanding at June 30, 2012	42

The weighted average grant date fair value for RSUs awarded during the period was $36.60 per share.

Stock-Based Compensation Expense

The impact on our results of operations of recording stock-based compensation expense for the three and six months ended June 30, 2012 and 2011 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Cost of net revenues	$14	$14	$28	$29
Sales and marketing	34	34	64	68
Product development	37	34	67	65
General and administrative	42	37	79	76
Total stock-based compensation expense	$127	$119	$238	$238
Capitalized in product development	$3	$4	$10	$8

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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 and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Risk-free interest rate	0.73 %	1.18 %	0.72 %	1.24 %
Expected life (in years)	4.0	3.7	4.0	3.8
Dividend yield	— %	— %	— %	— %
Expected volatility	38 %	38 %	38 %	38 %

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 six-month period ended June 30, 2012:

	(In millions)
Gross amounts of unrecognized tax benefits as of January 1, 2012	$286
Increases related to prior period tax positions	33
Decreases related to prior period tax positions	(4)
Increases related to current period tax positions	7
Settlements	—
Gross amounts of unrecognized tax benefits as of June 30, 2012	$322

As of June 30, 2012 and December 31, 2011, our liabilities for unrecognized tax benefits were included in deferred and other tax liabilities, net. The increase in liabilities for unrecognized tax benefits for the first six months of 2012 relates to the point at which certain foreign earnings became subject to U.S taxation.

We recognize interest and/or penalties related to uncertain tax positions in income tax expense. The amount of interest and penalties accrued as of June 30, 2012 and December 31, 2011 was approximately $109 million and $83 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 2009 tax years. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations. The material jurisdictions where we are subject to potential examination by tax authorities for tax years after 2002 include, among others, the U.S. (Federal and California), France, Germany, Italy, Korea, Israel, Switzerland, Singapore 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.

During the three and six months ended June 30, 2012, we provided for U.S. income and foreign withholding taxes on approximately 15% of our non-U.S. subsidiaries' undistributed earnings. The remaining portion of our non-U.S. subsidiaries undistributed earnings is intended to be indefinitely reinvested in our international operations; upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. income taxes (subject to adjustments for foreign

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tax credits). It is not practicable to determine the income tax liability that might be incurred if the indefinitely reinvested earnings were to be distributed. On a regular basis, we develop cash forecasts to estimate our cash needs internationally and domestically. We consider projected cash needs for, among other things, investments in our existing businesses, potential acquisitions and capital transactions, including repurchases of our common stock and debt repayments. We estimate the amount of cash available or needed in the jurisdictions where these investments are expected, as well as our ability to generate cash in those jurisdictions and our access to capital markets. Such an analysis enables us to conclude whether or not we will indefinitely reinvest the current period's foreign earnings.

Our effective tax rate differs from the U.S. federal statutory rate due primarily to lower tax rates associated with certain earnings from our operations outside the U.S.

Note 13 - Loans and Interest Receivable, Net

Loans and interest receivable represent purchased consumer receivables arising from loans made by a partner chartered financial institution to individual consumers in the U.S. to purchase goods and services through our Bill Me Later merchant network. During the three months ended June 30, 2012 and 2011, we purchased approximately $696 million and $499 million, respectively, in consumer receivables. During the six months ended June 30, 2012 and 2011, we purchased approximately $1.3 billion and $930 million, respectively, in consumer receivables. Loans and interest receivable are reported at their outstanding principal balances, net of 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 loan receivable owned by Bill Me Later. The weighted average consumer FICO score related to our loans and interest receivable balance outstanding at June 30, 2012 was 690 as compared to 692 at December 31, 2011. As of June 30, 2012 and December 31, 2011, approximately 56.4% and 59.3%, respectively, of our loans 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 June 30, 2012, approximately 90% of our loans and interest receivable portfolio was current.

The following table summarizes the activity in the allowance for loans and interest receivable:

	Six Months Ended June 30,	
	2012	2011
	(In millions)	
Balance as of January 1	$59	$42
Charge-offs	(59)	(36)
Recoveries	5	4
Provision	66	34
Balance as of June 30	$71	$44

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, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in“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.

Overview

eBay is a global commerce platform and payments leader. We enable commerce through eBay, the world's largest online marketplace, which allows users to buy and sell in nearly every country on earth; through PayPal, which enables individuals and businesses to securely, easily and quickly send and receive online payments; and through GSI, which facilitates ecommerce, multichannel retailing and interactive marketing for global enterprises. X.commerce brings together the technology assets and developer communities of eBay, PayPal and Magento, an ecommerce storefront platform, to support our mission of enabling commerce. We also reach millions of people through specialized marketplaces such as StubHub, the world's largest ticket marketplace, and eBay classifieds sites, which together have a presence in more than 1,000 cities around the world.

We have three reportable business segments: Marketplaces, Payments and GSI. Our Marketplaces segment includes our eBay.com platform and its localized counterparts and our other online trading platforms, such as our online classifieds sites and StubHub. Our Payments segment is comprised of PayPal, Bill Me Later and Zong. Our GSI segment consists of GSI Commerce, Inc. ("GSI"), and was added upon the completion of our acquisition of GSI on June 17, 2011. The results of our GSI segment have been included in our consolidated results of operations from the acquisition date.

Net revenues for the three months ended June 30, 2012 increased 23% to $3.4 billion, compared to the same period of the prior year, driven primarily by increases in net revenues from PayPal of 26%, Marketplaces of 9% and net revenues of $221 million from GSI. For the three months ended June 30, 2012, our operating margin increased to 20% from 19% in the same period of the prior year, driven primarily by the impact of GSI acquisition-related costs incurred in the second quarter 2011. For the three months ended June 30, 2012, our diluted earnings per share increased to $0.53, a $0.31 increase compared to the same period of the prior year, driven primarily by a loss from the divestiture of certain GSI businesses and GSI acquisition-related costs incurred in 2011, a gain from the divestiture of a business and strong growth in net revenues, partially offset by increased investment in the shopping experience and the impact of acquisitions. For the three months ended June 30, 2012, we generated cash flow from operations of approximately $768 million, compared to $783 million for the same period of the prior year.

Our Marketplaces segment total net revenues increased $151 million, or 9%, for the three months ended June 30, 2012 compared to the same period of the prior year. The increase in total net revenues was driven primarily by a year-over-year increase in GMV (as defined below) excluding vehicles of 10%, which was due primarily to strong growth across all regions partially offset by the negative impact of foreign currency movements relative to the U.S. dollar. Marketplaces segment operating margin increased 0.8 percentage points for the three months ended June 30, 2012 compared to the same period of the prior year due to the favorable resolution of an indirect tax dispute, partially offset by increased investments in technology and marketing.

Our Payments segment total net revenues increased $284 million, or 26%, for the three months ended June 30, 2012 compared to the same period of the prior year. The increase in total net revenues was driven primarily by a year-over-year increase in net TPV (as defined below) of 20% and strong growth in Bill Me Later. Our Payments segment operating margin increased 3.9 percentage points for the three months ended June 30, 2012 compared to the same period of the prior year, due primarily to higher take rate, lower processing costs and operating leverage.
Our GSI segment was formed as a result of our acquisition of GSI in June 2011. For the three months ended June 30, 2012, GSI contributed $221 million in revenue and had a segment operating margin of 4.5%.
Some key operating metrics that members of our senior management regularly review to evaluate our financial results include net promoter score (NPS), market share, GMV, GMV excluding vehicles, number of sold items, net TPV, Merchant Services net TPV (as defined below), on eBay net TPV (as defined below), net number of payments, global ecommerce (GeC) merchandise sales, penetration rates, active registered accounts, same store sales, funding mix (the mix of payments vehicles such as credit cards, debit cards, bank accounts and PayPal accounts, used by customers to make payments through our Payments networks), free cash flow (which we define as net cash provided by operating activities less purchases of property and equipment, net) and revenue excluding acquisitions and foreign currency impact.

We define GMV as the total value of all successfully closed items between users on our eBay Marketplaces trading platforms (excluding eBay's classified websites and Shopping.com) during the applicable period, regardless of whether the buyer and seller actually consummated the transaction. We define net TPV as the total dollar volume of payments, net of payment reversals, successfully completed through our Payments networks, Bill Me Later accounts and Zong during the applicable period, excluding PayPal's payment gateway business. We define Merchant Services net TPV as the total dollar volume of payments, net of reversals, successfully completed through our Payments networks, Bill Me Later accounts and Zong during the applicable period, excluding PayPal's payment gateway business and payments for transactions on eBay Marketplaces and GSI platforms. We define on eBay net TPV as the total dollar volume of payments, net of reversals, successfully completed through our payments networks for transactions on eBay Marketplaces or GSI platforms.

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, final value fees (which are fees payable on transactions completed on our Marketplaces trading 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 Bill Me Later 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 June 30,		Percent		Six Months Ended June 30,		Percent	
	2012	2011[1]	Change		2012	2011[1]	Change	
	(In millions, except percentage changes)							
Net Revenues by Type:								
Net transaction revenues								
Marketplaces	$1,491	$1,350	10	%	$2,916	$2,634	11	%
Payments	1,234	991	25	%	2,450	1,934	27	%
GSI	164	16	N/A		346	16	N/A	
Total net transaction revenues	2,889	2,357	23	%	5,712	4,584	25	%
Marketing services and other revenues								
Marketplaces	323	313	3	%	626	583	7	%
Payments	123	82	50	%	216	131	65	%
GSI	57	8	N/A		112	8	N/A	
Corporate and other	10	—	N/A		16	—	N/A	
Total marketing services and other revenues	513	403	27	%	970	722	34	%
Elimination of inter-segment net revenue [2]	(4)	—	N/A		(7)	—	N/A	
Total net revenues	$3,398	$2,760	23	%	$6,675	$5,306	26	%
Net Revenues by Geography:								
U.S.	$1,611	$1,249	29	%	$3,192	$2,390	34	%
International	1,787	1,511	18	%	3,483	2,916	19	%
Total net revenues	$3,398	$2,760	23	%	$6,675	$5,306	26	%

(1) Includes data for GSI since June 17, 2011 the date the acquisition of GSI was completed. Accordingly, the percent changes in GSI's revenues between the 2011 and 2012 periods are not meaningful.
(2) Represents 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 generate substantial net revenues internationally, 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 June 30, 2012, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately $99 million (net of a $14 million positive impact from hedging activities included in PayPal's net revenue) compared to the same period of the prior year. On a business segment basis, for the three months ended June 30, 2012, foreign currency movements relative to the U.S. dollar negatively impacted Marketplaces, Payments and GSI net revenues by approximately $80 million, $18 million and $1 million, respectively, in each case compared to the same period of the prior year (net of the impact of hedging activities noted above).

For the six months ended June 30, 2012, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately $122 million (net of a $26 million positive impact from hedging activities included in PayPal's net revenue) compared to the same period of the prior year. On a business segment basis, for the six months ended June 30, 2012, foreign currency movements relative to the U.S. dollar negatively impacted Marketplaces, Payments and GSI net revenues by approximately $104 million, $17 million and $1 million, respectively, in each case compared to the same period of the prior year (net of the impact of hedging activities noted above).

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 June 30,		Percent	Six Months Ended June 30,		Percent
	2012	2011	Change	2012	2011	Change
	(In millions, except percentage changes)					
Supplemental Operating Data:						
Marketplaces Segment: (1)						
GMV excluding vehicles (2)	$16,171	$14,680	10 %	$32,377	$29,176	11 %
GMV vehicles only (3)	$2,021	$2,238	(10)%	$3,892		