

EBAY INC
Form 10-Q
July 18, 2014

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

Form 10-Q

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

For the quarterly period ended June 30, 2014

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
(Address of principal executive offices)
(408) 376-7400

95125
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 11, 2014, there were 1,241,212,669 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, 2014	December 31, 2013
	(In millions, except par value amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,834	\$ 4,494
Short-term investments	3,535	4,531
Accounts receivable, net	765	899
Loans and interest receivable, net	2,939	2,789
Funds receivable and customer accounts	10,037	9,260
Other current assets	1,268	1,310
Total current assets	22,378	23,283
Long-term investments	6,217	4,971
Property and equipment, net	2,685	2,760
Goodwill	9,367	9,267
Intangible assets, net	714	941
Other assets	279	266
Total assets	\$ 41,640	\$ 41,488
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 1,203	\$ 6
Accounts payable	312	309
Funds payable and amounts due to customers	10,037	9,260
Accrued expenses and other current liabilities	5,693	2,799
Deferred revenue	183	158
Income taxes payable	110	107
Total current liabilities	17,538	12,639
Deferred and other tax liabilities, net	774	841
Long-term debt	4,118	4,117
Other liabilities	240	244
Total liabilities	22,670	17,841
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580 shares authorized; 1,241 and 1,294 shares outstanding	2	2
Additional paid-in capital	13,397	13,031
Treasury stock at cost, 362 and 296 shares	(12,864	) (9,396
Retained earnings	17,204	18,854
Accumulated other comprehensive income	1,231	1,156
Total stockholders' equity	18,970	23,647
Total liabilities and stockholders' equity	\$ 41,640	\$ 41,488

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
	(Unaudited)			
Net revenues	\$4,366	\$3,877	\$8,628	\$7,625
Cost of net revenues	1,392	1,211	2,743	2,363
Gross profit	2,974	2,666	5,885	5,262
Operating expenses:				
Sales and marketing	914	771	1,719	1,468
Product development	500	451	980	885
General and administrative	461	419	926	827
Provision for transaction and loan losses	232	193	436	368
Amortization of acquired intangible assets	73	82	152	164
Total operating expenses	2,180	1,916	4,213	3,712
Income from operations	794	750	1,672	1,550
Interest and other, net	9	6	4	15
Income before income taxes	803	756	1,676	1,565
Provision for income taxes	(127	) (116	) (3,326	) (248
Net income (loss)	\$676	\$640	\$(1,650	) \$1,317
Net income (loss) per share:				
Basic	\$0.54	\$0.49	\$(1.30	) \$1.02
Diluted	\$0.53	\$0.49	\$(1.30	) \$1.00
Weighted average shares:				
Basic	1,258	1,297	1,267	1,296
Diluted	1,267	1,313	1,267	1,316

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions) (Unaudited)			
Net income (loss)	\$676	\$640	\$(1,650	) \$1,317
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation gain (loss)	120	36	91	(265)
Unrealized gains (losses) on investments, net	16	76	(81	) 216
Tax (expense) benefit on unrealized gains (losses) on investments, net	(10	) (35	) 32	(89)
Unrealized gains (losses) on hedging activities, net	22	25	37	111
Tax (expense) benefit on unrealized gains (losses) on hedging activities, net	(1	) —	(4	) (3)
Other comprehensive income (loss), net tax	147	102	75	(30)
Comprehensive income (loss)	\$823	\$742	\$(1,575	) \$1,287

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30,	
	2014	2013
	(In millions)	
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$(1,650	) \$1,317
Adjustments:		
Provision for transaction and loan losses	436	368
Depreciation and amortization	755	676
Stock-based compensation	315	272
Deferred income taxes	3,060	347
Changes in assets and liabilities, net of acquisition effects	(248	) (1,032
Net cash provided by operating activities	2,668	1,948
Cash flows from investing activities:		
Purchases of property and equipment	(475	) (652
Changes in principal loans receivable, net	(232	) (183
Purchases of investments	(3,641	) (2,024
Maturities and sales of investments	3,264	1,798
Acquisitions, net of cash acquired	(39	) (15
Other	(6	) (14
Net cash used in investing activities	(1,129	) (1,090
Cash flows from financing activities:		
Proceeds from issuance of common stock	154	244
Repurchases of common stock	(3,468	) (942
Excess tax benefits from stock-based compensation	86	161
Tax withholdings related to net share settlements of restricted stock awards and units	(210	) (226
Net borrowings under commercial paper program	1,200	—
Funds receivable and customer accounts, net	(777	) (918
Funds payable and amounts due to customers, net	777	918
Net cash used in financing activities	(2,238	) (763
Effect of exchange rate changes on cash and cash equivalents	39	(57
Net increase (decrease) in cash and cash equivalents	(660	) 38
Cash and cash equivalents at beginning of period	4,494	6,817
Cash and cash equivalents at end of period	\$3,834	\$6,855
Supplemental cash flow disclosures:		
Cash paid for interest	\$49	\$49
Cash paid for income taxes	\$142	\$250

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 PayPal and Bill Me Later. 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.

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

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2013. 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 the interim period.

eBay Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recent Accounting Pronouncements

In 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance clarifying the accounting for the release of a cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The adoption of this standard did not have a significant impact on our financial position, results of operations, or cash flows.

In 2013, the FASB issued new accounting guidance clarifying the accounting for obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The adoption of this standard did not have a significant impact on our financial position, results of operations, or cash flows.

In 2013, the FASB issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the consolidated balance sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard required adoption on a prospective basis in the first quarter of 2014. The adoption of this standard did not have a significant impact on our financial position, results of operations, or cash flows.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard 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 standard on our financial statements.

In April 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 fiscal years beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We are evaluating the impact, if any, of adopting this new accounting standard on our financial statements.

In June 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. The new standard is effective for fiscal years beginning after December 15, 2014. The revised consolidation standards are effective one year later, in 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 June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. 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

eBay Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Numerator:				
Net income (loss)	\$676	\$640	\$(1,650	) \$1,317
Denominator:				
Weighted average shares of common stock - basic	1,258	1,297	1,267	1,296
Dilutive effect of equity incentive awards	9	16	—	