EBAY INC
Form 10-Q
July 22, 2011

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, 2011

OR

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

For the transition period from _______ to _______

Commission file number 000-24821

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

Delaware (State or other jurisdiction of incorporation or organization)	77-0430924 (I.R.S. Employer Identification Number)
2145 Hamilton Avenue San Jose, California (Address of principal executive offices)	95125 (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 18, 2011, there were 1,288,759,170 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, 2011	December 31, 2010
	(In thousands, except par value amounts)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,265,826	$ 5,577,411
Short-term investments	1,131,100	1,045,403
Accounts receivable, net	568,860	454,366
Loans and interest receivable, net	1,039,887	956,189
Funds receivable and customer accounts	3,362,209	2,550,731
Other current assets	493,210	481,238
Total current assets	9,861,092	11,065,338
Long-term investments	3,078,398	2,492,012
Property and equipment, net	1,727,081	1,523,333
Goodwill	8,263,705	6,193,163
Intangible assets, net	1,443,832	540,711
Other assets	459,846	189,205
Total assets	$ 24,833,954	$ 22,003,762
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 1,015,484	$ 300,000
Accounts payable	246,472	184,963
Funds payable and amounts due to customers	3,362,209	2,550,731
Accrued expenses and other current liabilities	1,366,636	1,343,888
Deferred revenue	105,387	96,464
Income taxes payable	47,084	40,468
Total current liabilities	6,143,272	4,516,514
Deferred and other tax liabilities, net	894,797	645,457
Long-term debt	1,530,211	1,494,227
Other liabilities	55,792	45,385
Total liabilities	8,624,072	6,701,583
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value; 3,580,000 shares authorized; 1,288,414 and 1,297,710 shares outstanding	1,528	1,513
Additional paid-in capital	10,870,718	10,480,709
Treasury stock at cost, 239,687 and 215,082 shares	(6,872,815)	(6,091,435)
Retained earnings	10,919,350	10,160,078
Accumulated other comprehensive income	1,291,101	751,314
Total stockholders' equity	16,209,882	15,302,179
Total liabilities and stockholders' equity	$ 24,833,954	$ 22,003,762

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,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
	(Unaudited)			
Net revenues	$2,760,274	$2,215,379	$5,305,883	$4,411,436
Cost of net revenues	773,462	615,371	1,502,440	1,221,926
Gross profit	1,986,812	1,600,008	3,803,443	3,189,510
Operating expenses:				
Sales and marketing	607,954	478,236	1,140,633	924,397
Product development	297,035	225,317	571,817	435,456
General and administrative	391,251	262,100	684,729	538,843
Provision for transaction and loan losses	118,497	92,032	225,588	198,061
Amortization of acquired intangible assets	53,276	48,895	97,372	102,147
Restructuring	(100)	8,863	(249)	17,432
Total operating expenses	1,467,913	1,115,443	2,719,890	2,216,336
Income from operations	518,899	484,565	1,083,553	973,174
Loss on divested business	(256,501)	—	(256,501)	—
Interest and other income (expense), net	28,576	14,821	32,268	20,867
Income before income taxes	290,974	499,386	859,320	994,041
Provision for income taxes	(7,567)	(87,194)	(100,048)	(184,196)
Net income	$283,407	$412,192	$759,272	$809,845
Net income per share:				
Basic	$0.22	$0.31	$0.59	$0.62
Diluted	$0.22	$0.31	$0.58	$0.61
Weighted average shares:				
Basic	1,296,537	1,310,042	1,296,792	1,305,595
Diluted	1,314,718	1,329,618	1,317,318	1,327,770

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,	
	2011	2010	2011	2010
	(In thousands) (Unaudited)			
Net income	$283,407	$412,192	$759,272	$809,845
Other comprehensive income (loss):				
Foreign currency translation	163,390	(536,686)	517,411	(691,411)
Unrealized gains (losses) on investments, net	(18,808)	30,019	103,066	2,132
Unrealized gains (losses) on hedging activities	1,283	7,746	(42,254)	35,869
Tax benefit (provision) on above items	6,666	(14,436)	(38,436)	(3,561)
Net change in accumulated other comprehensive income (loss)	152,531	(513,357)	539,787	(656,971)
Comprehensive income (loss)	$435,938	$(101,165)	$1,299,059	$152,874

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,	
	2011	2010
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net income	$759,272	$809,845
Adjustments:		
Provision for transaction and loan losses	225,588	198,061
Depreciation and amortization	400,684	375,839
Stock-based compensation	237,710	194,052
Loss on divested business	256,501	—
Gain on acquisition of a business	(17,055)	—
Changes in assets and liabilities, net of acquisition effects	(380,354)	(433,156)
Net cash provided by operating activities	1,482,346	1,144,641
Cash flows from investing activities:		
Purchases of property and equipment, net	(388,351)	(359,457)
Changes in principal loans receivable, net	(98,650)	(48,110)
Purchases of investments	(1,229,345)	(1,294,201)
Maturities and sales of investments	860,498	752,906
Acquisitions, net of cash acquired	(2,846,886)	(7,000)
Repayment of Skype note receivable	—	125,000
Other	(102,901)	(4,773)
Net cash used in investing activities	(3,805,635)	(835,635)
Cash flows from financing activities:		
Proceeds from issuance of common stock	156,459	99,639
Repurchases of common stock	(781,380)	—
Excess tax benefits from stock-based compensation	58,608	24,457
Tax withholdings related to net share settlements of restricted stock awards and units	(113,794)	(73,733)
Net borrowings under commercial paper program	700,000	—
Repayment of acquired debt	(186,233)	—
Funds receivable and customer accounts	(763,153)	(99,040)
Funds payable and amounts due to customers	763,153	99,040
Net cash (used in) provided by financing activities	(166,340)	50,363
Effect of exchange rate changes on cash and cash equivalents	178,044	(321,745)
Net (decrease) increase in cash and cash equivalents	(2,311,585)	37,624
Cash and cash equivalents at beginning of period	5,577,411	3,999,818
Cash and cash equivalents at end of period	$3,265,826	$4,037,442
Supplemental cash flow disclosures:		
Cash paid for interest	$13,685	$—
Cash paid for income taxes	$135,564	$448,264
Non-cash investing and financing activities:		
Common stock options assumed pursuant to acquisition	$24,762	$—
Note receivable from divested business	$286,800	$—

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

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

Note 1 — The Company and Summary of Significant Accounting Policies

The Company

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

We currently have three business segments: Marketplaces, Payments, and GSI. Our Marketplaces segment provides the infrastructure to enable global online commerce on a variety of platforms, including the eBay.com platform and its localized counterparts and our other online platforms, such as our online classifieds businesses (including our apartment listing service platform, Rent.com), our secondary tickets marketplace (StubHub), our online shopping comparison website (Shopping.com), and our fixed price media marketplace (Half.com). Our Payments segment is comprised of our online payment solutions PayPal and Bill Me Later. Our GSI segment, which consists of our recently acquired GSI Commerce (GSI) business, offers a comprehensive suite of ecommerce services that enable companies to operate ecommerce businesses, integrate their ecommerce businesses with their multi-channel offerings and exploit digital marketing channels. We added the GSI segment upon the completion of our acquisition of GSI on June 17, 2011, and the results of our new GSI segment have been included in our consolidated results of operations from the acquisition date.

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, bad debts, legal contingencies, income taxes, revenue recognition, stock-based compensation and the recoverability of goodwill and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Principles of consolidation and basis of presentation

The accompanying condensed financial statements are consolidated and include the financial statements of eBay Inc. and our majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

We have evaluated all subsequent events through the date the financial statements were issued.

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

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

Recent Accounting Pronouncements

In 2011, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that amends some fair value measurement principles and disclosure requirements. The new guidance states that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets and prohibits the grouping of financial instruments for purposes of determining their fair values when the unit of account is specified in other guidance. We will adopt this accounting standard upon its effective date for periods ending on or after December 15, 2011, and do not anticipate that this adoption will have a significant impact on our financial position or results of operations.

In 2011, the FASB issued new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. We will adopt this accounting standard upon its effective date for periods ending on or after December 15, 2011, and do not anticipate that this adoption will have any impact on our financial position or results of operations.

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 earnings 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,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Numerator:				
Net income	$283,407	$412,192	$759,272	$809,845
Denominator:				
Weighted average common shares - basic	1,296,537	1,310,042	1,296,792	1,305,595
Dilutive effect of equity incentive plans	18,181	19,576	20,526	22,175
Weighted average common shares - diluted	1,314,718	1,329,618	1,317,318	1,327,770
Net income per share:				
Basic	$0.22	$0.31	$0.59	$0.62
Diluted	$0.22	$0.31	$0.58	$0.61
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	17,762	34,693	15,946	32,587

Note 3 - Business Combinations:

During the six months ended June 30, 2011, we completed seven acquisitions, including the acquisitions of GSI Commerce, Inc., brands4friends and GittiGidiyor. Allocation of the purchase consideration for the business combinations completed in the first six months of 2011 is summarized as follows (in thousands):

	Purchase Consideration	Net Tangible Assets Acquired/(Liabilities Assumed)	Purchased Intangible Assets	Goodwill
GSI Commerce, Inc.	$2,377,257	$ 74,498	$819,100	$1,483,659
brands4friends	193,236	(33,146)	76,143	150,239
GittiGidiyor	235,278	(8,787)	52,700	191,365
Other	142,731	(4,832)	44,820	102,743
Total	$2,948,502	$ 27,733	$992,763	$1,928,006

The purchase consideration for each acquisition was allocated to the tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase consideration recorded as goodwill. The fair value assigned to identifiable intangible assets acquired has been determined primarily by using valuation methods that discount expected future cash flows to present value using estimates and assumptions determined by management. Purchased identifiable intangible assets are amortized on a straight-line basis over the respective useful lives. We generally do not expect goodwill to be deductible for income tax purposes. The estimation of fair values for tangible assets and intangible assets acquired and liabilities assumed was subject to estimates, assumptions and other uncertainties, and it is possible that the allocation of the purchase consideration reflected in the foregoing table may change.

GSI Commerce, Inc. (GSI)

Acquisition

We completed the acquisition of GSI on June 17, 2011. GSI is a leading provider of ecommerce and interactive marketing services. We acquired GSI to utilize its comprehensive integrated suite of online commerce and interactive marketing services to strengthen our ability to connect buyers and sellers worldwide. We paid $29.25 per share, and assumed restricted stock-based awards with a fair value of approximately $24.8 million resulting in total consideration of approximately $2.4 billion. In addition, we paid an amount equal to $0.33 per share or approximately $24.3 million, which was separate and distinct from the per share merger consideration, to certain GSI security holders in connection with the settlement of litigation related to the acquisition of GSI and recorded in general and administrative expense. GSI is reported as a separate segment.

Divestiture

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"). The divested businesses were sold to a newly formed holding company, NRG Commerce, LLC (which we refer to as NRG), led by GSI's former Chairman, President and Chief Executive Officer, Mr. Michael Rubin, for a note receivable with a face value of $467.0 million. The note receivable bears interest at an annual rate equal to 3-month LIBOR plus 1.10%, matures in December 2018, and is secured by certain assets of the divested businesses. The fair value of the note receivable was determined to be $286.8 million based on comparable market interest rates and is recorded in other assets. The difference between the fair value of the note receivable and the carrying value of the divested businesses resulted in a loss of approximately $256.5 million. The loss was recorded in loss on divested business in our condensed consolidated statement of income.

The carrying value of our retained 30 percent stake in the ShopRunner and RueLaLa businesses was $75.2 million and recorded in long-term investments. We will account for our retained interest in the ShopRunner and RueLaLa businesses under the equity method of accounting and record our proportionate share of net income (loss) on a one-quarter lag as a component of interest and other income (expense), net in our condensed consolidated statement of income. Our exposure to loss resulting from our financing arrangement with NRG and equity investment in RueLaLa and ShopRunner is limited to the carrying value of the note receivable and equity investment. We have also entered into a transitional services agreement, pursuant to which GSI will provide to the divested businesses certain transitional

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services for a limited period, as well as certain other commercial agreements with the newly formed holding company and its affiliates.

Intangible Assets

The following table sets forth the components of intangible assets acquired in connection with the GSI acquisition (excluding intangible assets sold in connection with the divested businesses) (in thousands):

Description	Fair Value	Useful Life (Years)
Trademarks	$8,400	2
User base	667,900	5
Developed technology	142,800	5
Total	$819,100	

The allocation of the purchase price for the acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available. We have included the financial results of GSI in our condensed consolidated financial statements from the date of acquisition.

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 periods shown as though the acquisition of GSI and the sale of the divested businesses had occurred as of the beginning of fiscal 2010. The pro forma financial information for the periods presented includes the business combination accounting effects of the acquisition, including amortization charges from acquired intangible assets. The pro forma financial information as 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, 2010. The unaudited pro forma financial information is as follows (in thousands, except per share amounts):

	Six Months Ended June 30,	
	2011	2010
Total revenues	$5,692,106	$4,764,472
Net income	699,540	727,532
Basic earnings per share	$0.54	$0.56
Diluted earnings per share	$0.53	$0.55

brands4friends

Brands4friends, an online shopping club for fashion and lifestyle in Germany, was acquired during the first quarter of 2011 for total cash consideration of approximately $193.2 million. This company is included in our Marketplaces segment. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available. Our consolidated financial statements include the operating results of brands4friends from the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to our condensed consolidated results of operations.

GittiGidiyor

In the second quarter of 2011, we acquired additional shares of GittiGidiyor, an online marketplace in Turkey. We previously held a noncontrolling interest in GittiGidiyor, and following the completion of the acquisition of these additional shares, we own approximately 93% of the outstanding shares of GittiGidiyor. The following table summarizes the purchase consideration (in thousands):

Cash paid	$182,068
Fair value of non-controlling interest	31,495
Fair value of previously held equity interest	21,715
Total purchase consideration	$235,278

This company is included in our Marketplaces segment. As a result of obtaining control over GittiGidiyor, our previously held 10% interest was remeasured to fair value resulting in a gain of $17.1 million. The gain has been recognized in interest and other income (expense), net in our condensed consolidated statement of income. We recorded the remaining non-controlling interest in additional paid in capital in our condensed consolidated balance sheet as the amount is not significant. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available. Our consolidated financial statements include the operating results of GittiGidiyor from the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to our condensed consolidated results of operations.

Other

Other acquisition activity during the six months ended June 30, 2011 consisted of four acquisitions. One acquisition is included in our Marketplaces segment and three acquisitions are included in our Payments segment. The purchase consideration for these acquisitions consisted of cash. The allocations of the purchase price for these acquisition has been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available. Our consolidated financial statements include the operating results of all of these acquisitions from the respective dates of acquisition. Pro forma results of operations have not been presented because the effect of these acquisitions was not material to our condensed consolidated results of operations.

Recent Acquisition Announcements

On June 6, 2011, we announced our agreement to acquire Magento Inc., which operates an open source ecommerce platform. We currently hold 49.9% of the outstanding shares of Magento, and following the completion of the acquisition, we will own 100 percent of the outstanding shares of Magento. The transaction is subject to customary closing conditions, including regulatory approvals, and is expected to close in the third quarter of 2011.

On July 7, 2011, we announced our agreement to acquire Zong, a provider of payments through mobile carrier billing, for total consideration of approximately $240 million, payable in cash. The transaction is subject to customary closing conditions, including regulatory approvals, and is expected to close in the third quarter of 2011.

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, 2011:

	December 31, 2010 (In thousands)	Goodwill Acquired	Adjustments	June 30, 2011
Reportable segments:				
Marketplaces	$4,071,772	$492,104	$143,194	$4,707,070
Payments	2,148,752	128,744	(661)	2,276,835
GSI	—	1,307,158	—	1,307,158
	$6,220,524	$1,928,006	$142,533	$8,291,063

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, 2011 and December 31, 2010, the goodwill related to our equity investments, included above, was approximately $27.4 million.

A portion of the $1.5 billion of goodwill acquired as part of the GSI acquisition was allocated to the marketplaces and payments segments based on synergies expected to be realized. The adjustments to goodwill during the six months ended June 30, 2011 were due primarily to foreign currency translation.

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

Intangible Assets

The components of identifiable intangible assets are as follows:

	June 30, 2011				December 31, 2010			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
	(In thousands, except years)							
Intangible assets:								
Customer lists and user base	$1,574,625	$(686,130)	$888,495	5	$831,806	$(625,126)	$206,680	6
Trademarks and trade names	753,237	(439,914)	313,323	5	632,899	(381,456)	251,443	5
Developed technologies	412,511	(214,689)	197,822	4	231,312	(192,421)	38,891	3
All other	167,148	(122,956)	44,192	4	156,306	(112,609)	43,697	4
	$2,907,521	$(1,463,689)	$1,443,832		$1,852,323	$(1,311,612)	$540,711	

Amortization expense for intangible assets was $65.9 million and $64.7 million for the three months ended June 30, 2011 and 2010, respectively. Amortization expense for intangible assets was $123.2 million and $136.2 million for the six months ended June 30, 2011 and 2010, respectively.

Expected future intangible asset amortization as of June 30, 2011 is as follows (in thousands):

Fiscal Years:	
2011 (remaining six months)	$206,118
2012	381,872
2013	346,373
2014	235,424
2015	173,262
Thereafter	100,783
	$1,443,832

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

Note 5 — Segments

Operating segments are based upon our internal organization structure, the manner in which our operations are managed and the availability of separate financial information. We have three operating segments: Marketplaces, Payments and GSI.

The following tables summarize the financial performance of our operating segments (in the case of our GSI segment, the following information reflects its operating results from June 17, 2011, the date we acquired GSI):

	Three Months Ended June 30, 2011			
	Marketplaces	Payments	GSI	Consolidated
	(In thousands)			
Net transaction revenues	$1,349,640	$991,118	$16,060	$2,356,818
Marketing services and other revenues	313,799	81,878	7,779	403,456
Net revenues from external customers	1,663,439	1,072,996	23,839	2,760,274
Direct costs	1,018,675	837,898	24,042	1,880,615
Direct contribution	$644,764	$235,098	$(203)	879,659
Operating expenses and indirect costs of net revenues				360,760
Income from operations				518,899
Loss on divested business				(256,501)
Interest and other income (expense), net				28,576
Income before income taxes				$290,974

	Three Months Ended June 30, 2010		
	Marketplaces	Payments	Consolidated
	(In thousands)		
Net transaction revenues	$1,182,513	$770,755	$1,953,268
Marketing services and other revenues	215,821	46,290	262,111
Net revenues from external customers	1,398,334	817,045	2,215,379
Direct costs	834,780	654,519	1,489,299
Direct contribution	$563,554	$162,526	726,080
Operating expenses and indirect costs of net revenues			241,515
Income from operations			484,565
Interest and other income (expense), net			14,821
Income before income taxes			$499,386

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

	Six Months Ended June 30, 2011			
	Marketplaces	Payments	GSI	Consolidated
	(In thousands)			
Net transaction revenues	$2,634,395	$1,933,827	$16,060	$4,584,282
Marketing services and other revenues	582,306	131,516	7,779	721,601
Net revenues from external customers	3,216,701	2,065,343	23,839	5,305,883
Direct costs	1,942,466	1,609,200	24,042	3,575,708
Direct contribution	$1,274,235	$456,143	$(203)	1,730,175
Operating expenses and indirect costs of net revenues				646,622
Income from operations				1,083,553
Loss on divested business				(256,501)
Interest and other income (expense), net				32,268
Income before income taxes				$859,320

	Six Months Ended June 30, 2010		
	Marketplaces	Payments	Consolidated
	(In thousands)		
Net transaction revenues	$2,355,452	$1,537,327	$3,892,779
Marketing services and other revenues	429,677	88,980	518,657
Net revenues from external customers	2,785,129	1,626,307	4,411,436
Direct costs	1,638,744	1,281,204	2,919,948
Direct contribution	$1,146,385	$345,103	1,491,488
Operating expenses and indirect costs of net revenues			518,314
Income from operations			973,174
Interest and other income (expense), net			20,867
Income before income taxes			$994,041

Direct contribution consists of net revenues from external customers less direct costs. Direct costs include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses, such as advertising and marketing programs, customer support expenses, bank charges, internal interest charges related to Bill Me Later, site operations expenses, product development expenses, billing operations, certain technology and facilities expenses, transaction expenses and provision for transaction and loan losses. Expenses such as our corporate center costs (consisting of certain costs such as corporate management, human resources, finance and legal), amortization of intangible assets, restructuring charges and stock-based compensation expense are excluded from direct costs as they are not included in the measurement of segment performance.

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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, 2011 and December 31, 2010:

Description	Balance as of June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
Assets:			
Cash and cash equivalents	$3,265,826	$3,265,826	$—
Short-term investments:			
Restricted cash	23,949	23,949	—
Corporate debt securities	317,861	—	317,861
Government and agency securities	56,673	—	56,673
Time deposits	87,895	—	87,895
Equity instruments	644,722	644,722	—
Total short-term investments	1,131,100	668,671	462,429
Derivatives	17,739	—	17,739
Long-term investments:			
Restricted cash	1,390	1,390	—
Corporate debt securities	2,171,405	—	2,171,405
Government and agency securities	89,434	—	89,434
Time deposits and other	5,574	—	5,574
Total long-term investments	2,267,803	1,390	2,266,413
Total financial assets	$6,682,468	$3,935,887	$2,746,581
Liabilities:			
Derivatives	$30,748	$—	$30,748

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Description	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
Assets:			
Cash and cash equivalents	$5,577,411	$5,577,411	$—
Short-term investments:			
Restricted cash	20,351	20,351	—
Corporate debt securities	372,225	—	372,225
Government and agency securities	66,534	—	66,534
Time deposits	44,772	—	44,772
Equity instruments	541,521	541,521	—
Total short-term investments	1,045,403	561,872	483,531
Derivatives	37,196	—	37,196
Long-term investments:			
Restricted cash	1,332	1,332	—
Corporate debt securities	1,605,770	—	1,605,770
Government and agency securities	150,966	—	150,966
Time deposits and other	4,541	—	4,541
Total long-term investments	1,762,609	1,332	1,761,277
Total financial assets	$8,422,619	$6,140,615	$2,282,004
Liabilities:			
Derivatives	$4,963	$—	$4,963

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. 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 short-term in nature, typically 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 mainly comprised of bank deposits and money market funds.

In addition to the long-term investments noted above, we had approximately $810.6 million and $729.4 million of cost and equity method investments included in long-term investments on our condensed consolidated balance sheet at June 30, 2011 and December 31, 2010, respectively. Our long-term equity investments primarily pertain to our retained 30% interest in Skype. On May 10, 2011, Microsoft Corp. announced that it had entered into a definitive agreement to acquire Skype for $8.5 billion, including debt, which is subject to regulatory approvals and other customary closing conditions and is expected to close in the latter half of 2011.

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, 2011, we had a total of $3.4 billion in cash withdrawals offsetting our $3.4 billion in Aggregate Cash Deposits held within the same financial institution under these cash pooling arrangements.

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

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approximates their fair value because of the short-term nature of these instruments. Funds receivable include receivables from promotional credit products offered to certain customers that settle within 12 months ($189.0 million as of June 30, 2011).

Note 7 — Derivative Instruments

Fair Value of Derivative Contracts

The fair value of our outstanding derivative instruments was as follows:

	Derivative Assets Reported in Other Current Assets		Derivative Liabilities Reported in Other Current Liabilities	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	(In thousands)			
Foreign exchange contracts designated as cash flow hedges	$235	$35,853	$21,300	$4,162
Foreign exchange contracts not designated as hedging instruments	8,964	1,343	9,448	801
Other contracts not designated as hedging instruments	8,540	—	—	—
Total fair value of derivative instruments	$17,739	$37,196	$30,748	$4,963

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, 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 to net revenue and operating expense (effective portion)	June 30, 2011
	(In thousands)			
Foreign exchange contracts designated as cash flow hedges	$13,560	$(40,537)	$1,717	$(28,694)

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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,	
	2011	2010	2011	2010
	(In thousands)			
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	$(10,461)	$10,437	$(16,942)	$7,863
Foreign exchange contracts designated as cash flow hedges recognized in operating expenses	(4,791)	—	(4,791)	—
Foreign exchange contracts not designated as hedging instruments recognized in interest and other income (expense), net	(204)	9,634	(6,941)	10,739
Total gain (loss) recognized from derivative contracts in the condensed consolidated statement of income	$(15,456)	$20,071	$(28,674)	$18,602

Note 8 - Debt:
The following table summarizes the carrying value of our outstanding debt (in thousands, except percentages):

	Coupon Rate	June 30, 2011	Effective Interest Rate	December 31, 2010	Effective Interest Rate
Long-Term Debt					
Senior notes due 2013	0.875%	$399,360	0.946%	$399,220	0.946%
Senior notes due 2015	1.625%	598,081	1.703%	597,857	1.703%
Senior notes due 2020	3.250%	497,296	3.319%	497,150	3.319%
Total senior notes		1,494,737		1,494,227	
Note payable		15,802		—	
Capital lease obligations		19,672		—	
Total long-term debt		$1,530,211		$1,494,227	
Short-Term Debt					
Commercial paper		$1,000,000		$300,000	
Note payable		1,886		—	
Capital lease obligations		13,598		—	
Total short-term debt		1,015,484		300,000	
Total Debt		$2,545,695		$1,794,227	

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, 2011 was approximately $8.0 million and $16.0 million, respectively. At June 30, 2011, the estimated fair value of all notes included in long-term debt was approximately $1.4 billion based on market prices on active markets (Level 1).

Note Payable

Note payable is largely comprised of a mortgage note assumed as part of our acquisition of GSI. The mortgage note bears interest at 6.3% per annum and has a maturity date of July 2014.

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 from August 2011 to February 2016 and bear interest at rates

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ranging from 2% to 9% per annum. The present value of future minimum lease payments was as follows (in thousands):

	June 30, 2011
Gross capital lease obligations	$35,538
Imputed interest	(2,268)
Total present value of future minimum lease payments	$33,270

Commercial Paper

We implemented a $1.0 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, 2011, the weighted average interest rate on our outstanding commercial paper notes was 0.18%, and the weighted average remaining term of our commercial paper notes was 26 days.

Credit Agreement

As of June 30, 2011, no borrowings or letters of credit were outstanding under our $1.8 billion credit agreement. As described above, we have a $1.0 billion commercial paper program and maintain $1.0 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, 2011, $0.8 billion of borrowing capacity was available for other purposes permitted by the credit agreement.

As of June 30, 2011, we were in compliance with all covenants related to our debt.

Note 9 — Commitments and Contingencies

Commitments

As of June 30, 2011, approximately $8.3 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 issued by a chartered financial institution, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and 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 three and six months ended June 30, 2011. 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 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.

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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 have further appealed this decision to the French Supreme Court. 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 could 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. 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 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. Other damages claimed are to be specified after the liability stage of the proceedings.

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In March 2007, a plaintiff filed a purported antitrust class action lawsuit against eBay in the Western District of Texas alleging that eBay and its wholly owned subsidiary PayPal “monopolized” markets through various anticompetitive acts and tying arrangements. The plaintiff alleged claims under sections 1 and 2 of the Sherman Act, as well as related state law claims. In April 2007, the plaintiff re-filed the complaint in the U.S. District Court for the Northern District of California (No. 07-CV-01882-RS), and dismissed the Texas action. The complaint seeks treble damages and an injunction. In 2007, the case was consolidated with other similar lawsuits (No. 07-CV-01882JF). In June 2007, we filed a motion to dismiss the complaint. In March 2008, the court granted the motion to dismiss the tying claims with leave to amend and denied the motion with respect to the monopolization claims. Plaintiffs subsequently decided not to refile the tying claims. The plaintiffs' motion on class certification and our motion for summary judgment were heard by the court in December 2009. In March 2010, the District Court granted our motion for summary judgment, denied plaintiffs' motion for class certification as moot, and entered judgment in our favor. Plaintiffs have appealed the District Court's decision, the matter is fully briefed and oral argument was presented in April 2011 before the Ninth Circuit Court of Appeals. In May 2011, the U.S. Ninth Circuit Court of Appeals upheld the District Court's ruling.

eBay's Korean subsidiary, IAC, 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 147,000 users have sued IAC over this breach in several lawsuits in Korean courts and more may do so in the future. 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 September 2011.

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 additional patent disputes, and expect that we will increasingly be subject to patent infringement claims as our services expand in scope and complexity. In particular, we expect that we may face additional patent infringement claims involving various aspects of our Marketplaces and Payments businesses, and increased exposure to such claims as a result of our recent acquisitions, directly and through indemnification of intellectual property claims against their customers. 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 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 resolve, could require expensive changes in our methods of doing business, or could require us to enter into costly royalty or licensing agreements.
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 such prices, rules or policies violate applicable law, or that we have not acted in conformity with such prices, rules or policies. The number and significance of these disputes and inquiries are increasing. 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. GSI in many of its major online commerce agreements has provided 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, 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, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Off-Balance Sheet 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 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) and funds that U.S. customers choose to invest in The PayPal Money Market Fund, which totaled approximately $2.7 billion as of June 30, 2011 and December 31, 2010. The PayPal Money Market Fund is invested in a portfolio managed by BlackRock Fund Advisors. The Board of Trustees for the PayPal Money Market Fund has approved the closing and liquidation of the Fund, which is scheduled to occur at the close of business on July 29, 2011.

Note 10 — Stock Repurchase Programs

In September 2010, our Board authorized a stock repurchase program that provides for the repurchase of up to $2.0 billion of our common stock, with no expiration from the date of authorization, for the purpose of offsetting the impact of dilution from our equity compensation programs. The stock repurchase activity under this stock repurchase program during the first six months of 2011 is summarized as follows (in thousands, except per share amounts):

	Shares Repurchased	Average Price per Share	Value of Shares Repurchased	Remaining Amount Authorized
Balance at January 1, 2011	1,880	$29.94	$56,293	$1,943,707
Repurchase of common stock	24,600	31.74	780,759	(780,759)
Balance at June 30, 2011	26,480	$31.61	$837,052	$1,162,948

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, 2011:

	Options (In thousands)
Outstanding at January 1, 2011	43,907
Granted	6,702
Exercised	(5,683)
Forfeited/expired/cancelled	(1,981)
Outstanding at June 30, 2011	42,945

The weighted average exercise price of stock options granted during the period was $30.92 per share and the related weighted average grant date fair value was $9.83 per share.

Restricted Stock Unit Activity

The following table summarizes restricted stock unit ("RSU") activity for the six-month period ended June 30, 2011:

	Units (In thousands)
Outstanding at January 1, 2011	38,348
Awarded and assumed	16,487
Vested	(11,231)
Forfeited	(2,733)
Outstanding at June 30, 2011	40,871

The weighted average grant date fair value for RSUs awarded during the period was $30.24 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, 2011 and 2010 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Cost of net revenues	$14,333	$11,249	$28,427	$24,283
Sales and marketing	33,489	25,189	68,111	53,680
Product development	33,628	23,991	65,113	51,155
General and administrative	37,403	31,554	76,059	64,934
Total stock-based compensation expense	$118,853	$91,983	$237,710	$194,052
Capitalized in product development	$4,456	$2,709	$7,870	$5,079

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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, 2011 and 2010:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
Risk-free interest rate	1.2	%	1.4	%	1.2	%	1.5	%
Expected life (in years)	3.7		3.4		3.8		3.4	
Dividend yield	—	%	—	%	—	%	—	%
Expected volatility	38	%	37	%	38	%	36	%

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 — Restructuring

2009 Customer Service Consolidation

In 2009, we began the consolidation of certain customer service facilities in North America and Europe to streamline our operations and deliver better and more efficient customer support to our users. The consolidation impacted approximately 1,000 employees. We have completed this consolidation and have incurred aggregate costs of approximately $47.2 million, primarily related to employee severance and benefits.

The following table summarizes by segment the restructuring costs recognized during the three months ended June 30, 2011 and 2010:

	Three Months Ended June 30, 2011					Three Months Ended June 30, 2010		
	Employee Severance and Benefits		Facilities	Total		Employee Severance and Benefits	Facilities	Total
	(In thousands)							
Marketplaces	$(118	)	$18	$(100	)	$5,719	$3,135	$8,854
Payments	—		—	—		9	—	9
	$(118	)	$18	$(100	)	$5,728	$3,135	$8,863

The following table summarizes by segment the restructuring costs recognized during the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Employee Severance and	Facilities	Total	Employee Severance and	Facilities	Total

	Benefits			Benefits		
	(In thousands)					
Marketplaces	$205	$(454)	$(249)	$14,250	$3,173	$17,423
Payments	—	—	—	9	—	9
	$205	$(454)	$(249)	$14,259	$3,173	$17,432

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The following table summarizes the restructuring reserve activity during the six months ended June 30, 2011:

	Employee Severance and Benefits	Facilities	Total
	(In thousands)		
Accrued liability as of January 1, 2011	$2,425	$3,559	$5,984
Charges (benefit)	205	(454)	(249)
Payments	(2,488)	(775)	(3,263)
Adjustments	336	516	852
Accrued liability as of June 30, 2011	$478	$2,846	$3,324

In the table above, adjustments primarily reflect the impact of foreign currency translation.

Note 13 — Income Taxes

The following table reflects changes in unrecognized tax benefits for the six-month period ended June 30, 2011:

	(In thousands)
Gross amounts of unrecognized tax benefits as of January 1, 2011	$428,344
Increases related to prior period tax positions	8,962
Decreases related to prior period tax positions	(129,765)
Increases related to current period tax positions	10,657
Settlements	(76,425)
Gross amounts of unrecognized tax benefits as of June 30, 2011	$241,773

As of June 30, 2011 and December 31, 2010, our liabilities for unrecognized tax benefits were included in deferred and other tax liabilities, net. In the second quarter of 2011, we settled multiple uncertain tax positions resulting in an overall decrease in our unrecognized tax benefits. The total liabilities for unrecognized tax benefits and the increases in 2011 relate primarily to the allocation of costs among our global operations.

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, 2011 and December 31, 2010 was approximately $91.7 million and $92.3 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 2008 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, 2011, 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 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

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(Unaudited)

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 was 3% and 12% for the second quarter and first six months of 2011, compared to 17% and 19% for the same periods in the prior year. The decrease in our effective tax rate during the second quarter and first six months of 2011 compared to the same periods of the prior year was due primarily to a tax benefit associated with the loss on the divestiture of certain GSI businesses being realized at a higher tax rate than our annualized effective tax rate. The tax benefit resulted in a 12 percentage point and 4 percentage point impact to the effective tax rate in the second quarter and first six months of 2011, compared to the same periods of the prior year, respectively.

Note 14 - 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. Loans and interest receivable are reported at their outstanding principal balances, including unamortized deferred origination costs and net of allowance, and include the 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 are obtained each quarter the consumer has a loan receivable owned by Bill Me Later outstanding. The weighted average consumer FICO score related to our loans and interest receivable balance outstanding at June 30, 2011 was 698. As of June 30, 2011 and December 31, 2010, approximately 60.9% and 63.6%, 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.

The following table summarizes the activity in the allowance for loans and interest receivable for the six months ended June 30, 2011:

	(In thousands)
Balance as of January 1, 2011	$42,340
Charge-offs	(36,346)
Recoveries	3,566
Provision	34,377
Balance as of June 30, 2011	$43,937

The allowance for loans and interest receivable represents management's estimate of probable losses inherent in our Bill Me Later portfolio of receivables from loans. Management's evaluation of probable losses is subject to numerous estimates and judgment; primarily forecasted principal balance delinquency rates ("roll rates"). Roll rates are the percentage of balances that we estimate will migrate from one stage of delinquency to the next based on our historical experience, as well as external factors such as estimated bankruptcies and levels of unemployment. The roll rates are applied to principal balances for each stage of delinquency, from current to 180 days past due, in order to estimate the principal loans that are probable to be charged off by the end of 180 days.

We charge off loans and interest receivable in the month in which the customer balance becomes 180 days past due. Bankrupt accounts are charged off within 60 days of receiving notification of customer bankruptcy from the courts. Past due loans receivable continue to accrue interest until such time as they are charged-off, though portions of the interest are reserved. As of June 30, 2011, approximately 91% of our loans and interest receivable portfolio were current.

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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 or financial results, new 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 other similar expressions. These forward-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 financial 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

We have three business segments: Marketplaces, Payments and GSI. Our Marketplaces segment provides the infrastructure to enable global online commerce on a variety of platforms, including the eBay.com platform and its localized counterparts and our other online platforms, such as our online classifieds businesses (including our apartment listing service platform, Rent.com), our secondary tickets marketplace (StubHub), our online shopping comparison website (Shopping.com), and our fixed price media marketplace (Half.com). Our Payments segment is comprised of our online payment solutions PayPal and Bill Me Later (BML). Our GSI segment, which consists of our recently acquired GSI Commerce (GSI) business, offers a comprehensive suite of ecommerce services that enables companies to operate ecommerce businesses, integrate their ecommerce businesses with their multi-channel offerings and exploit digital marketing channels. We added the GSI segment upon the completion of our acquisition of GSI on June 17, 2011, and the results of our new GSI segment have been included in our consolidated results of operations from the acquisition date.

Net revenues for the three months ended June 30, 2011 increased 25% to $2.8 billion, compared to the same period of the prior year, driven primarily by a 34% increase in PayPal net total payment volume (TPV) and a 17% increase in Marketplaces gross merchandise volume (GMV) excluding vehicles. For the three months ended June 30, 2011, our operating margin decreased to 19% from 22%, compared to the same period of the prior year, driven primarily by the impact of acquisitions. Our Payments segment operating margin for the three months ended June 30, 2011 increased 2 percentage points compared with the same period of the prior year, due to stable transaction margins, solid operating leverage and continued improvement in Bill Me Later performance. Our Marketplaces segment operating margin for the three months ended June 30, 2011 decreased 1.5 percentage points compared to the same period of the prior year driven primarily by the impact of recently completed acquisitions. For the three months ended June 30, 2011, our diluted earnings per share decreased to $0.22, a $0.09 decrease compared to the same period of the prior year, driven primarily by a loss from the divestiture of certain GSI businesses and other transaction-related expenses, partially offset by an increase in operating income. For the three months ended June 30, 2011, we generated cash flow from operations of approximately $782.7 million, compared to $726.4 million for the same period of the prior year.

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, net number of payments, GSI ecommerce services (GeC) merchandise sales (GMS), 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.

Outlook

We expect operating results in the third quarter of 2011 to be led by continued strength in our Payments business, driven by growth in net TPV as we execute against our long-term growth strategies and priorities. We expect continued strength in our Marketplaces business, particularly in the U.S. We also expect the acquisition of GSI to significantly contribute to our revenue growth. We will continue to invest in growth, focus on accelerating innovation, and make strategic acquisitions.

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 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 earned on certain PayPal customer account balances, interest and fees earned on the Bill Me Later portfolio of receivables from loans and from contractual arrangements with third parties that provide services to our users.

Because we generated the majority of our net revenue internationally in recent periods, including the three and six months ended June 30, 2011 and 2010, we are subject to the risks of doing business in foreign countries as discussed under "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, 2011, foreign currency movements relative to the U.S. dollar positively impacted net revenues by approximately $116.7 million (net of a $10.5 million negative impact from hedging activities relating to 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, 2011, foreign currency movements relative to the U.S. dollar positively impacted Marketplaces, Payments and GSI net revenues by approximately $93.5 million, $23.1 million and $0.1 million, respectively, 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, 2011, foreign currency movements relative to the U.S. dollar positively impacted net revenues by approximately $129.2 million (net of a $16.9 million negative impact from hedging activities relating to 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, 2011, foreign currency movements relative to the U.S. dollar positively impacted Marketplaces, Payments and GSI net revenues by approximately $106.7 million, $22.4 million and $0.1 million, respectively, compared to the same period of the prior year (net of the impact of hedging activities, noted above).

The following table sets forth the breakdown of net revenues by type, segment and geography for the periods presented. In addition, we have provided a table of 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	
	2011	2010	Change		2011	2010	Change	
	(In thousands, except percentage changes)							
Net Revenues by Type:								
Net transaction revenues								
Marketplaces	$1,349,640	$1,182,513	14	%	$2,634,395	$2,355,452	12	%
Payments	991,118	770,755	29	%	1,933,827	1,537,327	26	%
GSI	16,060	—	N/A		16,060	—	N/A	
Total net transaction revenues	2,356,818	1,953,268	21	%	4,584,282	3,892,779	18	%
Marketing services and other revenues								
Marketplaces	313,799	215,821	45	%	582,306	429,677	36	%
Payments	81,878	46,290	77	%	131,516	88,980	48	%
GSI	7,779	—	N/A		7,779	—	N/A	
Total marketing services and other revenues	403,456	262,111	54	%	721,601	518,657	39	%
Total net revenues	$2,760,274	$2,215,379	25	%	$5,305,883	$4,411,436	20	%
Net Revenues by Segment:								
Marketplaces	$1,663,439	$1,398,334	19	%	$3,216,701	$2,785,129	15	%
Payments	1,072,996	817,045	31	%	2,065,343	1,626,307	27	%
GSI	$23,839	$—	N/A		$23,839	$—	N/A	
Total net revenues	$2,760,274	$2,215,379	25	%	$5,305,883	$4,411,436	20	%
Net Revenues by Geography:								
U.S.	$1,249,303	$1,032,104	21	%	$2,390,354	$2,036,315	17	%
International	1,510,971	1,183,275	28	%	2,915,529	2,375,121	23	%
Total net revenues	$2,760,274	$2,215,379	25	%	$5,305,883	$4,411,436	20	%

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.

	Three Months Ended June 30,		Percent		Six Months Ended June 30,		Percent	
	2011	2010	Change		2011	2010	Change	
	(In millions, except percentage changes)							
Supplemental Operating Data:								
Marketplaces Segment: (1)								
GMV excluding vehicles (2)	$14,680	$12,531	17	%	$29,176	$25,902	13	%
GMV vehicles only (3)	2,238	2,189	2	%	4,288	4,210	2	%
Total GMV (4)	$16,918	$14,720	15	%	$33,464	$30,112	11	%
Payments Segment:								
Net TPV (5)	$28,742	$21,382	34	%	$56,104	$42,724	31	%

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

(2) Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction, excluding vehicles GMV.

(3) Total value of all successfully closed vehicle transactions between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction.

(4) Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction.

(5) Total dollar volume of payments, net of payment reversals, successfully completed through our Payments network and on Bill Me Later accounts during the period, excluding PayPal's payment gateway business.

Seasonality

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

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except percentage changes)			
2009*				
Net revenues	$2,020,586	$2,097,992	$2,237,852	2,370,932
Percent change from prior quarter	(1)%	4%	7%	6%
2010*				
Net revenues	$2,196,057	$2,215,379	2,249,488	2,495,350
Percent change from prior quarter	(7)%	1%	2%	11%
2011*				
Net revenues	2,545,609	2,760,274	—	—
Percent change from prior quarter	2%	8%	—	—

* On November 19, 2009, we completed the sale of Skype to an investor group. Accordingly, Skype's revenue is not consolidated in our 2010 and 2011 results. However, Skype's results of operations are consolidated in our 2009 results through the date of that sale.

We expect transaction activity patterns on our websites to mirror general consumer buying patterns.

Marketplaces Net Transaction Revenues

Marketplaces net transaction revenues increased $167.1 million, or 14%, while GMV excluding vehicles increased 17% during the second quarter of 2011 compared to the same period in the prior year. The increase in net transaction revenue was due primarily to growth in the number of sold items, foreign currency movements against the U.S. dollar and continued growth at StubHub. GMV excluding vehicles increased during the second quarter of 2011 compared to the same period in the prior year due to strong growth in the U.S. and stable growth in Europe.

Marketplaces net transaction revenues increased $278.9 million, or 12%, while GMV excluding vehicles increased 13% during the first six months of 2011 compared to the same period in the prior year. The increase in net transaction revenue and GMV excluding vehicles were due to the same factors as noted above.

Marketplaces net transaction revenues earned internationally totaled $758.8 million and $1.5 billion during the second quarter and first six months of 2011, respectively, representing 56% of total Marketplaces net transaction revenues during both periods. Marketplaces net transaction revenues earned internationally totaled $658.4 million and $1.3 billion during the second quarter and first six months of 2010, respectively, representing 56% and 57% of total Marketplaces net transaction revenues during those respective periods. The increase in international net transaction revenues in dollars was due primarily to growth in our existing international markets and foreign currency movements against the U.S. dollar.

Payments Net Transaction Revenues

Payments net transaction revenues increased $220.4 million, or 29%, during the second quarter of 2011 compared to the same period of the prior year, due primarily to net TPV growth of 34%, partially offset by lower take rates due primarily to a shift to larger merchants in our Merchant Services business. The increase in net TPV was due primarily to growth in consumer and merchant adoption of PayPal. Our Merchant Services net TPV increased 42% during the second quarter of 2011, compared to the same period of the prior year, and represented 66% of PayPal's net TPV in the second quarter of 2011, compared with 62% in the second quarter of 2010. The increase in our Merchant Services net TPV was due primarily to an increase in the number of online merchants offering PayPal as a payment option, as well as an increase in the share of checkout of PayPal's existing customer base of merchants.

Payments net transaction revenues increased $396.5 million, or 26%, during the first six months of 2011 compared to the same period of the prior year, due primarily to net TPV growth of 31% partially offset by lower take rates due primarily to a shift to larger merchants in our Merchant Services business. Our Merchant Services net TPV increased 40% during the first six months of 2011 compared to the same period of the prior year, and represented 65% of PayPal's net TPV in the first six months of 2011 compared with 61% in the first six months of 2010. The increase in net TPV and our Merchant Services net TPV was due to the same factors driving the second quarter year-over-year increase described above.

Payments net transaction revenues earned internationally totaled $515.6 million and $991.4 million during the second quarter and first six months of 2011, respectively, representing 52% and 51% of total Payments net transaction revenues during those respective periods. Payments net transaction revenues earned internationally totaled $371.0 million and $730.9 million during the second quarter and first six months of 2010, respectively, representing 48% of total Payments net transaction revenues during both periods. The increase in international net transaction revenues was due primarily to the growth of our Merchant Services business and increased penetration on eBay Marketplaces platforms internationally.

GSI Net Transaction Revenues

GSI net transaction revenues were $16.1 million in the second quarter of 2011, which represented the revenue generated from ecommerce services from our recently acquired GSI business for the period from June 17, 2011 (the date the acquisition of GSI was completed) through June 30, 2011.

Marketing Services and Other Revenues

Marketing services and other revenues increased $141.3 million and $202.9 million, or 54% and 39%, respectively, during the second quarter and first six months of 2011, compared to the same periods of the prior year, and represented 15% and 14% of total net revenues during the second quarter and first six months of 2011, respectively. The increase in marketing services and other revenues during the second quarter and first six months of 2011 was due primarily to the acquisition of brands4friends and an increase in revenues attributable to our classifieds business and advertising business, as well as interest earned on our Bill Me Later (BML) portfolio of receivables from loans.

Summary of Cost of Net Revenues

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

	Three Months Ended June 30,		Change from 2010 to 2011		Six Months Ended June 30,		Change from 2010 to 2011	
	2011	2010	in Dollars	in %	2011	2010	in Dollars	in %
	(In thousands, except percentages)							
Cost of net revenues:								
Marketplaces	$303,888	$257,976	$45,912	18 %	$599,710	$518,863	$80,847	16 %
As a percentage of total Marketplaces net revenues	18.3 %	18.4 %			18.6 %	18.6 %		
Payments	457,127	357,395	99,732	28 %	890,283	703,063	187,220	27 %
As a percentage of total Payments net revenues	42.6 %	43.7 %			43.1 %	43.2 %		
GSI	12,447	—	12,447	N/A	12,447	—	$12,447	N/A
As a percentage of total GSI net revenues	52.2 %	—			52.2 %	—		
Total cost of net revenues	$773,462	$615,371	$158,091	26 %	$1,502,440	$1,221,926	$280,514	23 %

As a percentage of net revenues	28.0 %	27.8 %	28.3 %	27.7 %

Cost of Net Revenues

Cost of net revenues consists primarily of costs associated with payment processing, customer support, site operations and inventory. 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 loans receivable by Bill Me Later, employee compensation, contractor costs, facilities costs, depreciation of equipment and amortization expense.

Marketplaces

Marketplaces cost of net revenues increased $45.9 million and $80.8 million, or 18% and 16%, during the second quarter and first six months of 2011, respectively, compared to the same period of the prior year. The increase was due primarily to the impact of acquiring brands4friends during the first quarter of 2011 and increased customer support costs associated with our volume growth.

Marketplaces cost of net revenues as a percentage of Marketplaces net revenues decreased slightly during the second quarter of 2011, compared to the same period of the prior year due primarily to increased operating leverage in our site operation infrastructure, partially offset by the impact of acquisitions.

Payments

Payments cost of net revenues increased $99.7 million and $187.2 million, or 28% and 27%, during the second quarter and first six months of 2011, respectively, compared to the same period of the prior year. The increase in Payments cost of net revenues was due primarily to the impact of growth in net TPV.

Payments cost of net revenues as a percentage of Payments net revenues decreased during the second quarter and the first six months of 2011, respectively, compared to the same periods of the prior year due primarily to a lower transaction expense rate partially offset by a lower take rate. The improvement in our transaction expense rate was driven primarily by the impact of certain new payment processing arrangements, a favorable mix shift to lower cost international markets and a small improvement in funding mix.

GSI

GSI cost of net revenues were $12.4 million during the second quarter of 2011, which represents the cost of net revenues from our recent acquisition of GSI for the period from June 17, 2011 (the date the acquisition was completed) through June 30, 2011.

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 June 30,		Change from 2010 to 2011		Six Months Ended June 30,		Change from 2010 to 2011	
	2011	2010	in Dollars	in %	2011	2010	in Dollars	in %
	(In thousands, except percentage changes)							
Sales and marketing	$607,954	$478,236	$129,718	27 %	$1,140,633	$924,397	$216,236	23 %
Product development	297,035	225,317	71,718	32 %	571,817	435,456	136,361	31 %
General and administrative	391,251	262,100	129,151	49 %	684,729	538,843	145,886	27 %
Provision for transaction and loan losses	118,497	92,032	26,465	29 %	225,588	198,061	27,527	14 %
Amortization of acquired intangible assets	53,276	48,895	4,381	9 %	97,372	102,147	(4,775)	(5)%
Restructuring	(100)	8,863	(8,963)	(101)%	(249)	17,432	(17,681)	(101)%
Loss on divested business	(256,501)	—	(256,501)	N/A	(256,501)	—	(256,501)	N/A

Interest and other income (expense), net	28,576	14,821	13,755	93 %	32,268	20,867	11,401	55 %
Provision for income taxes	(7,567)	(87,194)	79,627	(91)%	(100,048)	(184,196)	84,148	(46)%

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.

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Sales and marketing expenses increased $129.7 million and $216.2 million, or 27% and 23%, during the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year. The increase in sales and marketing expense was due primarily to higher marketing program costs, employee-related expenses (including consultant costs, facility costs and equipment-related costs) and the impact from acquisitions. A significant portion of our sales and marketing expense is attributable to our online marketing programs, primarily paid search, which include keyword advertising and third party lead generation costs, in order to drive traffic to our Marketplaces and Payments websites.

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. Capitalized site and product development costs were $44.1 million and $81.0 million in the second quarter and first six months of 2011, respectively, compared to $33.0 million and $60.1 million in the second quarter and first six months of 2010, respectively, and are primarily reflected as a cost of net revenues when amortized in future periods.

Product development expenses, net of capitalized amounts, increased $71.7 million and $136.4 million, or 32% and 31%, during the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year. The increase was due primarily to higher employee-related costs (including consultant costs, facility costs and equipment-related costs) driven by increased investment in our top technology priorities (search, catalog, mobile, platform, and user experience) and the impact from acquisitions.

General and Administrative

General and administrative expenses consist primarily of employee compensation, contractor costs, facilities costs, depreciation of equipment, employer payroll taxes on employee stock-based compensation, legal expenses, 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 $129.2 million and $145.9 million, or 49% and 27%, during the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year. The increase was due primarily to acquisition related transaction costs of $57.3 million, an increase in payroll and related expenses, professional service fees and other impacts of acquisitions.

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, chargebacks, and merchant credit losses; bad debt expense associated with our accounts receivable balance; and loan reserves associated with our principal loan receivable balance.
Provision for transaction and loan losses increased $26.5 million and $27.5 million, or 29% and 14%, during the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year. This increase was due primarily to higher transaction volume, partially offset by improvements in BML loan loss rates, bad debt rates and transaction loss rates. BML loan loss rates declined due to a lower charge-off rate and improved delinquency rates. Our bad debt rates declined due to continued improvement in charge-off rates. Transaction loss rates declined due to improvements in fraud loss detection and recoveries. We continue to 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.

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.

Amortization of acquired intangible assets increased by $4.4 million, or 9%, during the second quarter of 2011, compared to the same period of the prior year due primarily to the impact of acquisitions. Amortization of acquired intangible assets decreased by $4.8 million, or 5%, during the first six months of 2011, compared to the same period of the prior year. The decrease in amortization of acquired intangible assets was due primarily to the timing of certain acquired intangible assets becoming fully amortized, partially offset by amortization of newly acquired intangible assets.

Restructuring

In 2009, we began the consolidation of certain customer service facilities in North America and Europe to streamline our operations and deliver better and more efficient customer support to our users. We completed these activities during the first quarter of 2011. The consolidation impacted approximately 1,000 employees. In connection with the consolidation, we incurred aggregate restructuring costs of approximately $47.2 million. See "Note 12— Restructuring" to the condensed consolidated financial statements included in this report.

Restructuring expenses decreased $9.0 million and $17.7 million, during the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year due to the completion of these activities during the period.

Loss on Divested Business

We incurred a loss on the divestiture of certain GSI businesses of $256.5 million during the three and six months of 2011. We sold these businesses as they are not core to our long-term strategy and conflict with our community of sellers. See "Note 3 — Business Combinations" to the condensed consolidated financial statements included in this report.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, consists 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, and interest expense consisting of interest charges on the amount drawn under our credit agreement and on our outstanding commercial paper and debt securities. Interest and other income, net excludes interest expense related to Bill Me Later, which is included in cost of net revenues.

Interest and other income (expense), net increased $13.8 million and $11.4 million during the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year. The increase in interest and other income (expense), net was due primarily to an investment gain associated with an acquisition partially offset by higher interest expense.

Provision for Income Taxes

Our effective tax rate was 3% and 12% for the second quarter and first six months of 2011, compared to 17% and 19% for the same periods in the prior year. The decrease in our effective tax rate during the second quarter and first six months of 2011 compared to the same periods of the prior year was due primarily to a tax benefit associated with the loss on the divestiture of certain GSI businesses being realized at a higher tax rate than our annualized effective tax rate. The tax benefit resulted in a 12 percentage point and 4 percentage point impact to the effective tax rate in the second quarter and first six months of 2011, compared to the same periods of the prior year, respectively. Excluding the impact from the loss, our tax rate decreased in the second quarter and first six months of 2011 compared to the same periods of the prior year due to the favorable impact of discrete tax items primarily related to the settlement of uncertain tax positions.

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 cannot assure you 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

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$1,482,346	$1,144,641
Investing activities	(3,805,635)	(835,635)
Financing activities	(166,340)	50,363
Effect of exchange rates on cash and cash equivalents	178,044	(321,745)
Net increase/(decrease) in cash and cash equivalents	$(2,311,585)	$37,624

Operating Activities

We generated cash from operating activities in amounts greater than net income in the six months ended June 30, 2011 and June 30, 2010, due primarily to non-cash charges to earnings and changes in working capital. Non-cash charges to earnings included depreciation and amortization on our long-term assets, stock-based compensation and the provision for transaction and loan losses. The increase in cash provided by operating activities during the six months ended June 30, 2011 compared to the same period of the prior year was due primarily to cash paid in the first six months of 2010 for taxes of $448.3 million primarily related to a legal entity restructuring completed in the fourth quarter of 2009, compared to $135.6 million paid for taxes in the first six months of 2011.

Investing Activities

The net cash used in investing activities of $3,805.6 million in the six months ended June 30, 2011 was due primarily to cash paid for the purchases of investments of $1,229.3 million, acquisition of businesses of $2,846.9 million and purchases of property and equipment of $388.4 million, partially offset by proceeds of $860.5 million from the maturities and sale of investments.

The net cash used in investing activities of $835.6 million in the six months ended June 30, 2010 was due primarily to net cash paid for the purchase of investments of $1,294.2 million and purchases of property and equipment of $359.5 million, partially offset by proceeds of $752.9 million from the maturities and sale of investments and $125.0 million from the repayment of a Skype note receivable.

Financing Activities

The net cash used in financing activities of $166.3 million in the six months ended June 30, 2011 was due primarily to cash outflows of $781.4 million to repurchase common stock and $186.2 million to repay acquired debt, as well as cash paid for tax withholdings in the amount of $113.8 million related to net share settlements of restricted stock awards and units. These cash outflows were partially offset by proceeds of $700.0 million from additional borrowings under our commercial paper program, $156.5 million from the issuance of common stock in connection with the exercise of stock options and $58.6 million of excess tax benefits from stock-based compensation.

The net cash provided by financing activities of $50.4 million in the six months ended June 30, 2010 was due primarily to $73.7 million in cash paid for tax withholdings related to net share settlements of restricted stock units and nonvested share awards, partially offset by proceeds of $99.6 million from the issuance of common stock in connection with the exercise of stock options and $24.5 million in excess tax benefits from stock-based compensation.

The positive effect of exchange rate movements on cash and cash equivalents during the six months ended June 30, 2011 was due to the weakening of the U.S. dollar against other currencies, primarily the Euro. The negative effect of exchange rate movements on cash and cash equivalents during the six months ended June 30, 2010 was due to the strengthening of the U.S. dollar against other currencies, primarily the Euro.

Stock Repurchases

In September 2010, our Board authorized a stock repurchase program that provides for the repurchase of up to $2.0

billion of our common stock, with no expiration from the date of authorization, for the purpose of offsetting the impact of dilution from our equity compensation programs. During the six months ended June 30, 2011, we repurchased approximately $780.8 million of our common stock under this stock repurchase program. As of June 30, 2011, approximately $1.2 billion remained for further repurchases of our common stock under this stock repurchase program.

Shelf Registration Statement and Long-Term Debt

At June 30, 2011, 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, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes, and dual currency or other indexed notes. Issuances under the shelf registration 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 debt securities that may be issued thereunder. Our ability to issue debt securities is subject to market conditions and other factors impacting our borrowing capacity, including compliance with the covenants in our credit agreement.

In October 2010, we issued $1.5 billion aggregate principal amount of our senior unsecured debt securities under the shelf registration statement in an underwritten public offering. These debt securities remain outstanding and consist of $400 million aggregate principal amount of 0.875% notes due 2013, $600 million aggregate principal amount of 1.625% notes due 2015 and $500 million aggregate principal amount of 3.250% notes due 2020.

Commercial Paper

We have a $1.0 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 $1.0 billion at any time outstanding. As of June 30, 2011, $1.0 billion aggregate principal amount of commercial paper was outstanding, the weighted average interest rate on those notes was 0.18% per annum and the weighted average remaining term on our commercial paper notes was 26 days.

Credit Agreement

As of June 30, 2011, no borrowings or letters of credit were outstanding under our $1.8 billion credit agreement. However, as described above, we have a $1.0 billion commercial paper program and we maintain $1.0 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, 2011, $0.8 billion of borrowing capacity was available for other purposes permitted by the credit agreement.

Commitments

As of June 30, 2011, approximately $8.3 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 issued by a chartered financial institution, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and 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.

Liquidity and Capital Resource Requirements

At June 30, 2011, we had assets classified as cash and cash equivalents, as well as time deposits and fixed income securities classified as short-term investments, in an aggregate amount of $6.0 billion, compared to $7.8 billion at December 31, 2010. At June 30, 2011, we held assets of these types outside the U.S. in certain of our foreign operations totaling approximately $4.9 billion. If these cash and cash equivalents were distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. We actively monitor the third-party depository institutions and money market funds that hold these assets, primarily focusing on the safety of principal and secondarily maximizing yield on these assets. We diversify our cash and cash equivalents and investments among various financial institutions and money market funds in order to reduce our exposure should any one of these financial institutions or money market funds 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.

As our Bill Me Later products become more widely available through improved and more comprehensive product integrations with eBay, PayPal and other channels, and as we further promote Bill Me Later products, we expect customer adoption and usage of the product to expand. Any resulting growth in the portfolio from these initiatives would increase our liquidity needs and any failure to meet those liquidity needs could adversely affect the Bill Me Later business. We currently fund the expansion of the Bill Me Later portfolio of receivables from loans using both domestic and international cash resources.

We believe that our existing cash, cash equivalents and short-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, Bill Me Later portfolio of receivables from loans and stock repurchases for the foreseeable future.

Off-Balance Sheet Arrangements

As of June 30, 2011, 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, 2011, we had a total of $3.4 billion in cash withdrawals offsetting our $3.4 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 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) and funds that U.S. customers choose to invest in The PayPal Money Market Fund, which totaled approximately $2.7 billion as of June 30, 2011 and December 31, 2010. The PayPal Money Market Fund is invested in a portfolio managed by BlackRock Fund Advisors. The Board of Trustees for the PayPal Money Market Fund has approved the closing and liquidation of the Fund, which is scheduled to occur at the close of business on July 29, 2011.

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. GSI in many of its major online commerce agreements has provided 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, 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, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

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, 2010. Our market risk profile has not changed significantly during the first six months of 2011.

Interest Rate Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing 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 available for sale securities, including government and corporate securities and money market funds. As of June 30, 2011, approximately 44% of our total cash and investment portfolio was held in bank deposits and money market funds. As such, changes in interest rates will impact interest income. 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 forced to sell securities that have declined in market value due to changes in interest rates. Additionally, changes in interest rates will impact our interest rate sensitive credit agreement and accordingly, impact interest expense or cost of net revenues. As of June 30, 2011, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

Investment Risk

As of June 30, 2011, our cost and equity method investments totaled $810.6 million, which represented approximately 13% of our total cash and investment portfolio and was primarily related to our retained equity interest in Skype. These investments relate primarily to equity-method investments in private 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 review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data.
On May 10, 2011, Microsoft Corp. announced that it had entered into a definitive agreement to acquire Skype for $8.5 billion, including debt. Upon completion of the sale, which is subject to regulatory approvals and other customary closing conditions, our remaining equity method investments will not have a material impact on our total cash and investment portfolio.

Equity Price Risk
We are exposed to equity price risk on marketable equity instruments due to market volatility. At June 30, 2011, the total fair value of our marketable equity instruments was $644.7 million, which represented approximately 9% of our total cash and investment portfolio and was primarily related to our equity holdings in MercadoLibre.

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 whose objective is to identify material foreign currency exposures, to manage these exposures, and to minimize the potential effects of currency fluctuations on our reported consolidated cash flow 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.

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 Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), 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

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

- general economic conditions, including the possibility of a prolonged period of limited economic growth in the U.S. and Europe; disruptions to the credit and financial markets in the U.S., Europe and elsewhere; adverse effects of the ongoing sovereign debt crisis in Europe; the impact of a failure to increase the debt ceiling in the U.S.; contractions or limited growth in consumer spending or consumer credit; and adverse economic conditions that may be specific to the Internet, ecommerce and payments industries;
- our ability to retain an active user base, attract new users, and encourage existing users to list items for sale, purchase items through our websites, or use our payment services, especially when consumer spending is weak;
- the primary and secondary effects of previously announced and possible future changes to our pricing, products and policies, including, among other changes, restrictions or holds on payments made to sellers or in connection with certain categories of higher-risk transactions; changes to performance standards and/or rewards for sellers, including taking into account cases filed through the eBay and PayPal buyer protection programs in evaluating individual seller performance ratings; changes to our dispute resolution process; upgrades to eBay checkout services, including the introduction of a new eBay shopping cart that enables buyers to add items from multiple sellers and pay in a single checkout and, effective July 2011, the discontinuation of support for third party checkout services; and recent changes to our fee structure, including the calculation of final value fees based on the total amount of the transaction (including shipping);
- consumer confidence in the safety and security of transactions using our websites or technology and the effect of any changes in our practices and policies designed to foster improved confidence;
- our ability to meet existing and new regulatory requirements as we expand the range and geographical scope of our services and as we grow larger, especially for our Payments business;

- our ability to manage the costs of and effectively implement our user protection programs;
- the volume, velocity, size, timing, monetization, and completion rates of transactions using our websites or technology;
- regulatory and legal actions imposing obligations on our businesses or our users, including the injunction related to certain cosmetic and perfume brands (see “Item 1 - Legal Proceedings” above);
- our ability to improve the quality of the user experience on our websites and through mobile devices (including our customer support in the event of a problem) in light of the improved quality generally of the user experience offered by competitive Internet merchants;
- our ability to reduce the loss of active buyers and sellers and increase activity of the users of our Marketplaces business, especially with respect to our top buyers and sellers;

- changes to our use of advertising on our sites, including changes in ad placement;
- the impact on PayPal or Bill Me Later of regulations enacted pursuant to new laws regulating financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the U.S.;
- other new laws or regulations, or interpretations of existing laws or regulations, that impose liability on us for actions of our users or otherwise harm our business models or restrict the Internet, ecommerce, online payments or online advertising;
- the actions of our competitors, including the introduction of new sites, services, products and functionality;
- the costs and results of litigation that involves us;
- our ability to develop product enhancements, programs, and features on different platforms (e.g., mobile devices and availability of PayPal at the retail point of sale) at a reasonable cost and in a timely manner;
- our ability to upgrade and develop our systems, infrastructure, and customer service capabilities to accommodate growth and to improve our websites at a reasonable cost while maintaining 24/7 operations;
- technical difficulties or service interruptions involving our websites or services provided to us or our users by third parties;
- our ability to manage the transaction loss rate in our Marketplaces and Payments business;
- our ability to manage funding costs, credit risk and interest-rate risk associated with our Bill Me Later business;
- our ability to successfully and cost-effectively integrate and manage businesses that we acquire, including GSI, and the merger of our marketplaces in Korea following our recent receipt of regulatory approval to combine IAC and Gmarket;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our businesses, operations, and infrastructure;
- our ability to comply with the requirements of entities whose services are required for our operations, such as payment card networks and banks;
- the cost and availability of online and traditional advertising, and the success of our brand building and marketing campaigns;
- our ability to attract new personnel in a timely and effective manner and to retain key employees;
- the continued healthy operation of our technology suppliers and other parties with which we have commercial relations;
- continued consumer acceptance of the Internet as a medium for ecommerce and payments in the face of increasing publicity about fraud, spoofing, phishing, viruses, spyware, malware and other dangers of the Internet; and
- macroeconomic and geopolitical events affecting commerce generally.

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

We invest heavily in technology, marketing and promotion, customer support, protection programs and further development of the operating infrastructure for our core and non-core operations. Some of this investment entails long-term contractual commitments. As a result, we may be unable to adjust our spending rapidly enough to compensate for any unexpected revenue shortfall, which may harm our profitability.

Growth rates of our Marketplaces businesses in some of our most established markets have been slower than that for ecommerce generally and have declined in certain periods. The growth of Internet users is slowing in many countries where we have a significant presence, and is accelerating in some countries where we do not (e.g., China, where we do not have a domestic business). Despite our efforts to stem our loss of market share in these and other markets, we may not be successful. As our growth rates in established markets slow, we will increasingly need to focus on keeping existing users, especially our top buyers and sellers, active and increasing their activity level on our websites in order to continue to grow our business. In addition, our Marketplaces business is facing increased competitive pressure. In particular, the competitive norm for, and the expected level of service from, Internet ecommerce websites has significantly increased, due to, for example, improved user experience, greater ease of buying goods, lower (or no) shipping costs, faster shipping times and more favorable return policies. If we are unable to change our services in ways that reflect the changing demands of the ecommerce marketplace, particularly the higher growth of sales of fixed-price items and higher service levels (some of which depend on services provided by sellers on our platforms), our business will suffer.

We have announced changes to our Marketplaces business intended to drive more sales and improve seller efficiency. For example, in the U.S. and the U.K., we have begun testing the efficacy of improving seller performance and increasing buyer satisfaction by requesting that PayPal place temporary holds on seller funds in certain instances (e.g., for sellers with a limited selling history or below-standard performance ratings), and we may expand the scope of such programs in the future and introduce other programs with similar aims in these and other countries. Some of the changes that we have announced to date have been controversial with, and led to dissatisfaction among, our sellers, and additional changes that we announce in the future may also be negatively received by some of our sellers. This may not only impact the supply of items listed on our websites, but because many sellers also buy from our sites, it may adversely impact demand as well. Given the number of recent changes that we have made to our policies and pricing, it may take our sellers some time to fully assess and adjust to these changes, and sellers may elect to reduce volume while making such assessments and adjustments or in response to these changes. If any of these changes cause sellers to move their business (in whole or in part) away from our websites or otherwise fail to improve gross merchandise volume or the number of successful listings, our operating results and profitability will be harmed. We believe that the mix of sales under our traditional auction-style listing format and fixed-price listing format will continue to shift towards our fixed-price format. Accordingly, we have eliminated some of the features related to our traditional auction-style format and expect others will become less meaningful to, and used less frequently by, our sellers, which would result in a corresponding decrease in revenues from such features. In addition, we expect that the costs associated with our seller discount programs will increase as more sellers become eligible for such discounts.

In addition, because a large percentage of PayPal transactions originate on the eBay platform, declines in growth rates in major Marketplaces markets also adversely affect PayPal's growth. The expected future growth of our PayPal, StubHub, and our other lower margin businesses may also cause downward pressure on our profit margins because those businesses have lower gross margins than our Marketplaces platforms.

The sluggish economy could harm our business.

Our Marketplaces and Payments businesses are dependent on consumer purchases, and our GSI business is tied to the online growth in the U.S. of our clients and impacted by the offline businesses of our clients. The economic downturn resulted in reduced buyer demand and reduced selling prices and the slow recovery may reduce the volume of purchases on our Marketplaces platforms and the volume of transactions paid for using our Payment services, and the online and offline businesses of our GSI clients, all of which would adversely affect our business. In the event of the bankruptcy of a merchant that sells goods or services in advance of the date of their delivery or use (such as airline, cruise or concert tickets), PayPal could be liable to the buyers of such goods or services either through its buyer protection program or through chargebacks on payment cards used by customers to fund their payment through PayPal.

We are exposed to fluctuations in currency exchange rates and interest rates.

Because we conduct the majority of our business outside the United States but report our financial results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. In connection with its multi-currency service, PayPal fixes exchange rates twice per day, and may face financial exposure if it incorrectly fixes the exchange rate or if exposure reports are delayed. PayPal also holds some corporate and customer funds in non-U.S. currencies, and thus its financial results are affected by the translation of these non-U.S. currencies into U.S. dollars. In addition, 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 upon consolidation. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions will result in increased net revenues, operating expenses and net income. Similarly, our translation of foreign currency denominated transactions will result in lower net revenues, operating expenses and net income if the U.S. dollar strengthens against foreign currencies, as happened in the first half of 2010. Net revenues in the six months ended June 30, 2011 were positively impacted by foreign currency translation of $129.2 million compared to the same period of the prior fiscal year. As exchange rates vary, net revenues and other operating results, when translated, may differ materially from expectations. In particular, to the extent the U.S. dollar strengthens against the Euro, British pound, Korean won, or Australian dollar, our foreign revenues and profits will be reduced as a result of these translation adjustments. While from time to time we enter into transactions to hedge portions of our foreign currency translation exposure, it is impossible to perfectly predict or completely eliminate the effects of this

exposure. In addition, to the extent the U.S. dollar strengthens against the Euro, the British pound, the Australian dollar or other currencies, cross-border trade related to purchases of dollar-denominated goods by non-U.S. purchasers will likely decrease, and that decrease will likely not be offset by a corresponding increase in cross-border trade involving purchases by U.S. buyers of goods denominated in other currencies, adversely affecting our business.
In addition, we face exposure to fluctuations in interest rates. For example, relatively low interest rates have continued to limit our investment income, including income we earn on PayPal customer balances, which in turn has lowered our net interest income and net revenues.

Bill Me Later's operations depend on lending services provided by an unaffiliated lender.

We acquired Bill Me Later, a company that facilitates credit services offered by an unaffiliated bank, in November 2008. Bill Me Later is neither a chartered financial institution nor is it licensed to make loans in any state. Accordingly, Bill Me Later must rely on a bank or licensed lender to issue the Bill Me Later credit products and extend credit to customers in order to offer the Bill Me Later service. Currently, when a consumer makes a purchase using a Bill Me Later credit product issued by a chartered financial institution, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the receivables related to the extensions of credit made by the chartered financial institution and, as a result of 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.

In September 2010, WebBank became the issuer of the Bill Me Later credit products. WebBank is an industrial bank chartered by the State of Utah. Any termination or interruption of WebBank's ability to lend could result in our being unable to originate any new transactions for the Bill Me Later service. Under those circumstances, we would be required to either reach a similar arrangement with another chartered financial institution, which may not be available on favorable terms, if at all, 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.

A lawsuit has been filed against Bill Me Later, PayPal and eBay and is pending in the U.S. District Court for the Central District of California, alleging that in its relationship with the chartered financial institution, Bill Me Later is acting as the true lender to customers in violation of various California laws, including the state's usury law. The court dismissed the usury claims in December 2010, but breach of contract and other claims remain, and the plaintiffs are seeking to revive the usury claim. We believe that these allegations are without merit and intend to defend ourselves vigorously. However, this area of law is uncertain and if the lawsuit is successful, Bill Me Later may be required to change its methods of operations, pay substantial damages and reduce some of its charges and fees, which would likely adversely affect our business.

If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfers, money laundering, counter-terrorist financing, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices.

While PayPal currently allows its customers with credit cards to send payments from 190 markets, PayPal only allows customers in 104 of those markets (including the U.S.) to 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 190 markets whose residents can use the PayPal service, 31 (27 countries plus four French overseas departments) are members of the European Union , or EU. Since 2007, PayPal has provided localized versions of its service to customers in the EU through PayPal (Europe) S.A.R.L. et Cie, SCA, 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 or other requirements imposed on Luxembourg banks. PayPal has limited experience in operating as a bank, and any fines or other enforcement actions imposed by the Luxembourg regulator could adversely affect PayPal's business. PayPal (Europe) implements its localized services in EU countries through a “passport” notification process through the Luxembourg regulator to regulators in other EU member states pursuant to EU Directives, and has completed the “passport” notice process in all EU member countries. The regulators in these countries could notify PayPal (Europe) of local consumer protection laws that will 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 EU countries. In addition, the EU Payments Service Directive, which established a new regulatory regime for payment services providers, formally took effect in November 2009. The interpretation of regulations implementing the EU Payments Service Directive remains uncertain.

In Australia, PayPal serves its customers through PayPal Australia Pty. Ltd., which is licensed by the Australian Prudential Regulatory Authority as a purchased payment facility provider, which is a type of authorized depository institution. Accordingly, PayPal Australia is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, corporate governance or other requirements imposed on Australian depository institutions. In China, PayPal is affiliated with Shanghai Wangfuyi Information Technology Ltd., which is licensed as an Internet Content Provider and operates a payments service only for Chinese customers and only for transactions denominated in Chinese currency. The People's Bank of China (PBOC) has recently enacted regulations to establish a new type of license, called a Payment Settlement Organization (PSO) license, which will be required for non-bank payment services. The PBOC regulations leave unclear whether a foreign-owned company such as PayPal can control or invest in a Payment Settlement Organization, and whether Wangfuyi would be eligible to obtain a PSO license.

To date, PayPal has obtained licenses to operate as a money transmitter in 42 U.S. states, the District of Columbia and Puerto Rico, and has obtained interpretations in five other states that licensing is not required under their existing statutes. PayPal is also licensed as an escrow agent in one U.S. state. The remaining U.S. states do not currently regulate money transmitters. As a licensed money transmitter, PayPal is subject to restrictions on its investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies. If PayPal were found to be in violation of money services laws or regulations, PayPal could be subject to liability, forced to cease doing business with residents of certain states, forced to change its business practices, or required to obtain additional licenses or regulatory approvals that could impose a substantial cost on PayPal. Any change to PayPal's business practices that makes the service less attractive to customers or prohibits its use by residents of a particular jurisdiction could decrease the velocity of trade on eBay, which would further harm our business.

In markets other than the U.S., the EU, Australia and the China domestic business, PayPal serves its customers through PayPal Private Ltd., a wholly-owned subsidiary of PayPal that is based in Singapore. PayPal Private Ltd. is regulated in Singapore as a stored value issuer. In many of these markets, it is not clear whether PayPal's Singapore-based service is subject only to Singaporean law or, if it were subject to local laws, whether such local law would require a payment processor like PayPal to be licensed as a bank or financial institution or otherwise. In such markets, the business may rely on partnerships with local banks to process payments and conduct foreign exchange in local currency. Local regulators who do not have direct jurisdiction over Singapore-based PayPal Private Ltd. may use their local regulatory power to slow or halt payments to local merchants conducted through the local banking partner. Such regulatory actions impacting local banking partner arrangements could impose substantial costs and involve considerable delay to the provision or development of PayPal services in that market, or could prevent PayPal from providing any services in a given market. The Reserve Bank of India has asserted that PayPal's offering of payment services to customers outside of India to send personal, non-commercial payments to recipients in India requires a license from the Reserve Bank. For a period of time in 2010, the Reserve Bank directed the Indian affiliate of PayPal's processing bank to suspend withdrawals to the Indian bank accounts of PayPal customers for both personal and business customers. PayPal has ended personal non-commercial payments to and from Indian accounts and the ability of Indian sellers to spend payments they receive, and has also stopped offering certain commercial payments between Indian buyers and Indian sellers. In November 2010, the Reserve Bank of India issued guidelines to Indian banks on the requirements for processing export-related transactions for online payment gateway service providers such as PayPal, including a limitation on the amount of individual transactions to no more than $500. The Reserve Bank may again impose a suspension if it is not satisfied with PayPal's and its partner bank's actions to comply with these guidelines. In the event of any non-compliance, PayPal could be subject to fines from the Reserve Bank, and PayPal's prospects for future business in India, both cross-border and domestic, could be materially and adversely affected.

Even if PayPal is not currently required to be licensed in some jurisdictions, future localization or targeted marketing of PayPal's service in those countries, or expansion of the financial products offered by PayPal (either alone, through a commercial alliance or through an acquisition), could subject PayPal to additional licensure requirements, laws and regulations and increased regulatory scrutiny, any of which may harm PayPal's business. For example, PayPal expects it will require licenses in Japan and Russia to expand its services in those countries. There can be no assurance that PayPal will be able to obtain such licenses. Even if PayPal were able to obtain such licenses, there will be substantial costs involved in maintenance of such licenses, and PayPal will 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 costs and involve considerable delay to the provision or development of PayPal's products. Delay or failure to receive such a license or regulatory approval could require PayPal to change its business practices or features in ways that would adversely affect PayPal's expansion plans, and could require PayPal to suspend providing products and services to customers in one or more countries.

PayPal is also 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.

Although PayPal has implemented a program to comply with these laws and regulations, any errors or failure to comply with federal, state or foreign money laundering and counter-terrorist financing laws could result in significant criminal and civil lawsuits, penalties, and forfeiture of significant assets. In the United States, PayPal is subject to regulations that require it to report suspicious activities involving transactions of $2,000 or more, and may be required to obtain and keep more detailed records on the senders and recipients in certain transfers of $3,000 or more. The interpretation of suspicious activities in this context is uncertain. Pending regulations may require PayPal to revise the procedures it uses to verify the identity of its customers and to monitor international transactions more closely. Several countries in which PayPal is regulated, including Australia, Luxembourg and Singapore, have implemented new anti-money laundering and counter-terrorist financing laws and regulations, and PayPal has had to make changes to its procedures in response. In November 2009, the Australian anti-money laundering and counter-terrorist financing regulator (AUSTRAC) accepted an enforceable undertaking from PayPal Australia pursuant to which PayPal Australia agreed, among other things, to appoint an independent auditor to assess PayPal Australia's anti-money laundering compliance policies and procedures and issue a report identifying any unremediated deficiencies accompanied by a plan by PayPal to remedy any such deficiencies. In the enforceable undertaking, AUSTRAC expressed concern that PayPal Australia did not have systems and controls in place to manage adequately its money laundering and terrorist financing risk. In September 2010, the independent auditor completed its review and issued its report, and PayPal Australia submitted a remediation plan. PayPal Australia is in the process of investing in improvements to its anti-money laundering and counter-terrorist financing systems, policies and operations as part of its remediation plan. In addition, PayPal Australia will be required to obtain additional information from customers, verify that information, and monitor its customers' activities more closely. As PayPal continues to localize its services in additional jurisdictions, it could be required to meet standards similar to those in Australia. These requirements could impose significant costs on PayPal, cause delay to other planned product improvements, make it more difficult for new customers to join its network and reduce the attractiveness of its products.

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 of the U.S. Federal Reserve Board. 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. PayPal seeks to pass most of these losses on to the relevant merchants, but PayPal incurs losses if the merchant does not have sufficient funds in its PayPal account. 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. eBay Inc. and PayPal, Inc.; and Moises Zepeda v. PayPal, Inc.) were filed in the U.S. District Court in the Northern District of California. 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 users' funds or otherwise improperly limited user's 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. Changes to PayPal's practices that may result from these lawsuits could require PayPal to incur significant costs and to expend product resources, which could cause delay to other planned product improvements, which would further harm our business.

Our Bill Me Later service is similarly subject to a variety of laws and regulations. Although we do not originate loans under the Bill Me Later service, we do purchase receivables related to the consumer loans extended by the bank which originates them, and one or more jurisdictions may conclude that the eBay company which purchases those receivables is a lender or money transmitter or loan broker, which could subject us to liability or regulation in one or more jurisdictions. As described under the caption “Bill Me Later's operations depend on lending services provided by an unaffiliated lender” above, a lawsuit has been filed against Bill Me Later in the U.S. District Court for the Northern District of California alleging that in its relationship with the former issuer of the Bill Me Later credit products, Bill Me Later was acting as the true lender to customers in violation of various California laws, including the state's usury law.

Additionally, federal regulators could mandate changes to the relationship between us and the issuing bank of the Bill Me Later credit products. Any termination or interruption of the issuing bank's lending services to consumers could result in an interruption of Bill Me Later services, as described under the caption “Bill Me Later's operations depend on lending services provided by an unaffiliated lender” above.

The listing or sale by our users of pirated or counterfeit items may harm our business.

We have received in the past, and we anticipate receiving in the future, communications alleging that certain items listed or sold through our service by our users infringe third-party copyrights, trademarks and trade names, or other intellectual property rights. See “Item 1 - Legal Proceedings” above. Although we have sought to work actively with the owners of intellectual property rights to eliminate listings offering infringing items on our websites, some rights owners have expressed the view that our efforts are insufficient. Content owners and other intellectual property rights owners have been active in asserting their purported rights against online companies, including eBay. Allegations of infringement of intellectual property rights have resulted in threats of litigation and actual litigation against us from time to time by rights owners, including litigation brought by luxury brand owners such as Tiffany & Co. in the U.S., 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. The plaintiffs in these cases seek to hold eBay liable for alleged counterfeit items listed on our sites by third parties; for “tester” and other consumer products labeled in a manner to prevent resale and for unboxed and other allegedly nonconforming products listed on our sites by third parties; for the alleged misuse of trademarks or copyrights in listings or otherwise on our sites, and in connection with paid search advertisements; for alleged violations of selective distribution channel laws or parallel import laws for listings of authentic items; and for alleged non-compliance with consumer protection laws. Such plaintiffs seek, among other things, injunctive relief and damages. In the aggregate, these suits could result in significant damage awards and injunctions that could adversely affect our business. There are approximately 30,000 rights owners in our verified rights owner (VeRO) program, and each rights owner has anywhere from one to several hundred brands. Statutory damages for copyright or trademark violations could range up to $30,000 per copyright violation and $100,000 per trademark violation in the U.S., and even higher in other jurisdictions. 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. In addition, rights owners have aggressively sought to reduce the applicability of limitations to intellectual property rights such as copyright exhaustion and the first sales doctrine in cases such as Vernor v. Autodesk Inc. (Ninth Circuit Court of Appeals) and Costco Wholesale Corp. v. Omega S.A. (Sup. Ct.). To the extent such doctrines are limited, the supply of goods available for resale on eBay may be adversely affected.

In addition to litigation from rights owners, we may be subject to regulatory, civil or criminal proceedings and penalties if governmental authorities believe we have aided in the sale of counterfeit goods. While we have had some early success in defending against such litigation, more recent cases have been based, at least in part, on different legal theories than those of earlier cases, and there is no guarantee that we will continue to be successful in defending against such litigation. Plaintiffs in recent cases have argued that we are not entitled to safe harbors under the Digital Millennium Copyright Act in the U.S. or as a hosting provider in the European Union under the Electronic Commerce Directive because of the alleged active nature of our involvement with our sellers, and that, whether or not such safe harbors are available, we should be found liable because we supposedly have not adequately removed listings that are counterfeit or are authentic but allegedly violate trademark or copyright law or effectively suspended users who have created such listings. We are continuously seeking to improve and modify our efforts to eliminate counterfeit and pirated items. These improvements are in response to ongoing business initiatives designed to reduce bad buyer experiences and improve customer satisfaction as well as in response to new patterns we are seeing among counterfeiters and others committing fraud on our users. Notwithstanding these efforts, we believe that the legal climate, especially in Europe, is becoming more adverse to our positions, which may require us to take actions which could lower our revenues, increase our costs, or make our websites less convenient to our customers, which may materially harm our business. In addition, a public perception that counterfeit or pirated items are commonplace on our sites, even if factually incorrect, could damage our reputation and our business.

Content owners and other intellectual property rights owners may also seek to bring legal action against entities that are peripherally involved in the sale of infringing items, such as payment companies. To the extent that intellectual property rights owners bring legal action against PayPal based upon the use of PayPal's payment services in a transaction involving the sale of infringing items, including on our websites, our business could be harmed.

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 we have been notified of several other potential patent disputes, and expect that we will increasingly be subject to patent infringement claims involving various aspects of our Marketplaces, Payments and GSI segments as our services continue to expand in scope and complexity, including through acquisitions, and the universe of patent owners who may claim that we infringe their patents correspondingly increases. These claims, whether meritorious or not, are time consuming and costly to resolve, and could require expensive changes in our methods of doing business, could require us to enter into costly royalty or licensing agreements, or could require us to cease conducting certain operations.

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

We may be unable to prevent our users from selling unlawful or stolen goods or unlawful services, or selling goods or services in an unlawful manner, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by users through our services. We have been subject to several lawsuits based upon such allegations. In December 2004, an executive of Baazee.com, our Indian subsidiary, was arrested in connection with a user's listing of a pornographic video clip on that website. We continue to contest the charges related to this arrest. Similarly, one of our Korean subsidiaries (IAC) and one of its employees were found criminally liable for listings (which occurred prior to our acquisition of IAC) on IAC's website. The German Federal Supreme Court has ruled that we may have a duty to take reasonable measures to prevent prohibited DVDs from being sold on our site to minors and that competitors may be able to enforce this duty. In a number of circumstances, third parties, including government regulators and law enforcement officials, have alleged that our services aid and abet certain violations of certain laws, including antiscalping laws with respect to the resale of tickets, laws regarding the sale of counterfeit items, the fencing of stolen goods, selective distribution channel laws, distance selling laws and the sale of items outside of the U.S. that are regulated by U.S. export controls.

Although we have prohibited the listing of illegal and stolen goods and certain high-risk items and implemented other protective measures, we may be required to spend substantial resources to take additional protective measures or discontinue certain service offerings, any of which could harm our business. Any costs incurred as a result of potential liability relating to the alleged or actual sale of unlawful goods or the unlawful sale of goods could harm our business. Certain manufacturers and large retailers have sought new U.S. federal and state legislation regarding stolen goods that could limit our ability to allow sellers to use our sites without confirming the source of, and their legal rights to sell, the underlying goods. In addition, from time to time we have received significant media attention relating to the listing or sale of illegal goods and stolen goods using our services. This negative publicity could damage our reputation, diminish the value of our brand names and make users reluctant to use our services.

PayPal's payment system is also susceptible to potentially illegal or improper uses. These may include illegal online gambling, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, piracy of software and other copyrighted or trademarked goods, money laundering, terrorist financing, 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 rights owners and U.S. government officials on the role that payments systems play in the sale of, and payment for, pirated digital goods on the Internet. Recent 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 policymakers. Despite measures PayPal has taken to detect and lessen the risk of this kind of conduct, illegal activities could still be funded using PayPal. Any resulting claims or liabilities could harm our business.

If our GSI business is unable to enhance its platform and migrate clients to its new platform in a timely and cost-effective manner, it would be substantially harmed.

Our GSI business is in the process of enhancing and unbundling the components of its ecommerce and payments platform and migrating its existing customers to its new platform. This project, which is not expected to be completed until 2013, is very expensive and time consuming and involves significant technical risk. If client migrations to the enhanced platform are delayed, or the enhanced platform is not accepted by the market, or GSI fails to meet client commitments and services level agreements, GSI could be subject to substantial penalties under its agreements with its clients, its relationships with its clients and their respective businesses could be substantially harmed, and our GSI business would be harmed. Even if accomplished successfully, this development and migration project may cost more than expected or take longer than currently planned, which could harm our GSI business.

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

As discussed above with respect to certain specific issues, the law relating to the liability of online services companies for information carried on or disseminated through their services is often unsettled. Claims could be made against online services companies under both U.S. and foreign law for defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Several private lawsuits seeking to impose liability under a number of these theories have been brought against us, as well as other online service companies. In addition, domestic and foreign legislation has been proposed that would prohibit or impose liability for the transmission over the Internet of certain types of information. Our service features a Feedback Forum, which includes information from users regarding other users. Although all such feedback is generated by users and not by us, claims of defamation or other injury have been made in the past and could be made in the future against us for not removing content posted in the Feedback Forum.

Furthermore, several court decisions arguably have narrowed the scope of the immunity provided to Internet service providers like us under the Communications Decency Act. For example, the Ninth Circuit has held that certain immunity provisions under the Communications Decency Act might not apply to the extent that a website owner materially contributes to the development of unlawful content on its website. As our websites evolve, challenges to the applicability of these immunities can be expected to continue. In addition, the Paris Court of Appeal has ruled in the

Louis Vuitton Malletier and Christian Dior Couture cases that applicable laws protecting passive internet “hosts” from liability are inapplicable to eBay given that eBay actively promotes bidding on its sellers' listings and receives a commission on successful transactions, and is therefore a broker. the ECJ decision in the L'oreal case (see “Item 1 - Legal Proceedings” above) gave broad discretion to national courts in Europe to determine if Internet hosting immunity applies to eBay. This trend, if continued, may increase our potential liability to third parties for the user-provided content on our sites, particularly in jurisdictions outside the U.S. where laws governing Internet transactions are unsettled. 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 would negatively affect our financial results. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could require us to incur additional costs and harm our reputation and our business.

Government inquiries may lead to charges or penalties.

A large number of transactions occur on our websites on a daily basis. Government regulators have received a significant number of consumer complaints about both eBay and PayPal, which, while small as a percentage of our total transactions, are large in aggregate numbers. As a result, from time to time we have been contacted by various foreign and domestic governmental regulatory agencies that have questions about our operations and the steps we take to protect our users from fraud. PayPal has received inquiries regarding its restriction and disclosure practices from the Federal Trade Commission and regarding these and other business practices from the attorneys general of a number of states. In September 2006, PayPal entered into a settlement agreement with the attorneys general of a number of states under which it agreed to pay $1.7 million to the attorneys general, shorten and streamline its user agreement, increase educational messaging to users about funding choices, and communicate more information regarding protection programs to users. From time to time, we face inquiries from government regulators in various jurisdictions related to actions that we have taken that are designed to improve the security of transactions and the quality of the user experience on our websites and we may face similar inquiries from other government regulators in the future. For example, both the Australian Competition and Consumer Commission and the Reserve Bank of Australia recently reviewed our policies requiring sellers to offer PayPal as a payment alternative on most transactions on our localized Australian website and precluding sellers from imposing a surcharge or any other fee for accepting PayPal or other payment methods. Other regulators have requested information concerning PayPal's limitations of customer accounts. Similarly, Bill Me Later has from time to time received customer complaints that could result in investigations into Bill Me Later's business practices by state or federal regulators. As a result of the recent credit crisis, new laws have been passed, and we expect additional new laws and regulations to be adopted that impose, among other requirements, additional obligations and restrictions on the provision of credit. We are likely to receive additional inquiries from regulatory agencies in the future, including under existing or new credit laws or regulations, which may lead to action against us. We have responded to all inquiries from regulatory agencies by describing our current and planned antifraud efforts, customer support procedures, operating procedures and disclosures. If one or more of these agencies is not satisfied with our response to current or future inquiries, we could be subject to enforcement actions, fines or other penalties, or forced to change our operating practices in ways that could harm our business.

We are subject to general litigation and regulatory disputes.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries have increased as our company has grown larger and the scope of our businesses has expanded. 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 as our services to users continues to expand and as we expand geographically into jurisdictions where the underlying laws with respect to the potential liability of online intermediaries such as ourselves are either unclear or less favorable. We are also subject to federal, state, local and foreign laws of general applicability, including laws regulating working conditions (e.g., the Fair Labor Standards Act). 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.

Changes to our dispute resolution process could increase our costs and loss rate.

In 2009, 2010 and 2011, we have transitioned buyers in the U.S., U.K. and Germany to a dispute resolution process provided by eBay customer support, which now serves as the primary entry point for buyers who are unable to resolve their disputes with eBay sellers. Among other things, the resolutions process provides that eBay will generally reimburse the buyer for the full amount of an item's purchase price (including original shipping costs), in cases where the item was not received or the item they received was different from that described in the listing, and the seller does not provide adequate resolution to the buyer. eBay then attempts to recoup amounts paid to the buyer from the seller's PayPal accounts or other collection methods. Our costs associated with resolutions have increased as a result of these changes to our resolutions policies and process. These changes, together with any further changes that we may make to our resolutions process in the future, may be negatively received by, and lead to dissatisfaction on the part of, some of our sellers. These changes may also result in an increase in buyer fraud and associated transaction losses. In addition, eBay may not have the same level of rights of recoupment against sellers as PayPal, which may result in higher costs to operate the program.

Failure to deal effectively with bad transactions and customer disputes would increase our loss rate and harm our business.

Over the last several years, we have enhanced the buyer and seller protections offered by PayPal in certain eBay marketplaces, and in certain countries for transactions outside of eBay marketplaces. These changes to PayPal's buyer and seller protection program could result in future changes and fluctuations in our Payments transaction loss rate. For the the six months ended June 30, 2011 and the fiscal year ended December 31, 2010, our Payments transaction losses (including both direct losses and buyer protection payouts) totaled $104.1 million and $153.1 million, representing 0.20% and 0.17% of our net total payment volume, respectively. Beginning in 2009, we have also changed the dispute resolution process for transactions on eBay.com, eBay.co.uk and eBay.de, as described in greater detail above under the caption “Changes to our dispute resolution process could increase our costs and loss rate,” which could result in an increase in our combined eBay and PayPal transaction losses.

PayPal's highly automated and liquid payment service makes PayPal an attractive target for fraud. In configuring its service, PayPal continually strives to maintain the right balance of appropriate measures to promote both convenience and security for customers. Identity thieves and those committing fraud using stolen credit card or bank account numbers can potentially steal large amounts of money from businesses such as PayPal. We believe that several of PayPal's current and former competitors in the electronic payments business have gone out of business or significantly restricted their businesses largely due to losses from this type of fraud. While PayPal uses advanced anti-fraud technologies, we expect that technically knowledgeable criminals will continue to attempt to circumvent PayPal's anti-fraud systems using increasingly sophisticated methods. In addition, PayPal's service could be subject to employee fraud or other internal security breaches, and PayPal may be required to reimburse customers for any funds stolen as a result of such breaches. Merchants could also request reimbursement, or stop using PayPal, if they are affected by buyer fraud or other types of fraud.

PayPal incurs substantial losses due to claims from buyers that merchants have not performed or that their goods or services do not match the merchant's description, whether those claims arise from merchant fraud or from an unintentional failure to perform by the merchant. 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 customers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition to the direct costs of such losses, if they are related to payment card transactions and become excessive, they could potentially result in PayPal losing the right to accept payment cards for payment, which would materially and adversely affect our business. In addition, if PayPal were unable to accept payment cards, the velocity of trade on eBay could decrease and result in corresponding decreases in our net total payment volume, in which case our business would further suffer.

The Bill Me Later service is similarly subject to the risk of fraudulent activity associated with merchants, users of the Bill Me Later service and third parties handling its user information, which could increase our exposure to transaction losses and adversely affect this business. Our Payments business 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 will suffer.

eBay faces similar risks with respect to fraudulent activities on its websites. eBay periodically receives complaints from users who may not have received the goods that they had purchased. In some cases individuals have been arrested and convicted for fraudulent activities using our websites. eBay also receives complaints from sellers who have not received payment for the goods that a buyer had contracted to purchase. Non-payment may occur because of miscommunication, because a buyer has changed his or her mind and decided not to honor the contract to purchase the item, or because the buyer bid on the item maliciously in order to harm either the seller or eBay. 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 eBay can, in some cases, suspend the accounts of users who fail to fulfill their payment or delivery obligations to other users, eBay does not have the ability to require users to make payment or deliver goods, or otherwise make users whole other than through our buyer protection programs. The impact of changes to our dispute resolutions program implemented beginning in 2009 is discussed in more detail above under the caption

"Changes to our dispute resolution process could increase our costs and loss rate."

Our limited 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 than what was described. However, users who pay through PayPal may have reimbursement rights from their credit card company or bank, which in turn will seek reimbursement from PayPal. eBay also periodically receives complaints from buyers as to the quality of the goods purchased. 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 only 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 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.

Negative publicity and user sentiment generated as a result of fraudulent or deceptive conduct by users of our Marketplaces and Payments services could damage our reputation, reduce our ability to attract new users or retain our current users, and diminish the value of our brand names. We believe that negative user experiences are one of the primary reasons users stop using our services.

Governmental regulators worldwide are also looking at approaches intended to reduce online fraud. Some of the current proposals (e.g., two-factor authentication in France to verify a user's identity) could increase our costs and require us to change our business practices in ways that would harm our business.

From time to time, we have considered more active mechanisms designed to combat bad transactions and increase buyer satisfaction, including evaluating sellers on the basis of their transaction history and restricting or suspending their activity as a result. For example, in the U.S. and the U.K., we have begun testing the efficacy of improving seller performance and increasing buyer satisfaction by requesting that PayPal hold seller funds in certain instances (e.g., for sellers with a limited selling history or below-standard performance ratings), and we may expand the scope of such programs in the future and introduce other programs with similar aims in these and other countries. Our increased usage of these or other mechanisms to attempt to improve buyer satisfaction could result in dissatisfaction on the part of sellers, loss of share to competing marketplaces, reduced selection of inventory on our sites and other adverse effects.

Any factors that reduce cross-border trade could harm our business.

Cross-border trade has become an increasingly important source of both revenue and profits for us. Cross-border transactions using our websites generally provide higher revenues and gross margins than similar transactions that take place within a single country or market. We generally earn higher transaction fees for cross-border transactions involving PayPal, and our Marketplaces business continues to represent a relatively easy way for buyers and sellers to engage in cross-border trade compared with other alternatives. Any factors that result in a net reduction in cross-border trade, including, among other factors, fluctuations in currency exchange rates, the interpretation and application of specific national or regional laws, such as selective distribution channel laws and parallel import laws, to users in other countries (e.g., the interpretation and application of such laws to the sale of “gray market” goods), 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), or any other factors that impose restrictions on, or increase the costs of, purchasing, selling or shipping goods across national borders (including customs enforcement and tariffs) would harm our business.

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

Our businesses involve the storage and transmission of users' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. An increasing number of websites, including several other large internet companies, have recently disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their sites. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users. A party that is able to circumvent our security measures could misappropriate our or our users' proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

Currently, a significant number of our users authorize us to bill their payment card accounts directly for all transaction fees charged by us. PayPal's users routinely provide credit card and other financial information, and GSI customers routinely provide credit card information which we maintain to facilitate the ease of future transactions. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer payment card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect transaction data being breached or compromised. Non-technical means, for example, actions by a suborned employee, can also result in a data breach.

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. In addition, if we fail to follow payment card industry security standards, even if there is no compromise of customer information, we could incur significant fines or lose our ability to give customers the option of using payment cards to fund their payments or pay their fees. If we were unable to accept payment cards, our business would be seriously damaged.

Our servers are also vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions, and we have experienced “denial-of-service” type attacks on our system that have, in certain instances, made all or portions of our websites unavailable for periods of time. For example, in December 2010, PayPal was subject to a series of distributed “denial of service” attacks following PayPal's decision to permanently restrict the account used by WikiLeaks due to a violation of PayPal's Acceptable Use Policy. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. These issues are likely to become more difficult as we expand the number of places where we operate. Security breaches, including any breach by us or by parties with which we have commercial relationships that result in the unauthorized release of our users' personal information, could damage our reputation and expose us to a risk of loss or litigation and possible liability. Our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches.

Our users, as well as those of other prominent Internet companies, have been and will continue to be targeted by parties using fraudulent “spoof” and “phishing” emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses or other malware through “trojan horse” programs to our users' computers. These emails appear to be legitimate emails sent by eBay, PayPal, a GSI client, or one of our other businesses (e.g., StubHub), or by a user of one of our businesses, but direct recipients to fake websites operated by the sender of the email or request that the recipient send a password or other confidential information via email or download a program. Despite our efforts to mitigate “spoof” and “phishing” emails through product improvements and user education, “spoof” and “phishing” remain a serious problem that may damage our brands, discourage use of our websites, and increase our costs.

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business.

We are subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our users, especially for financial information and for users located outside of the U.S. In addition, as an entity licensed and subject to regulation as a bank in Luxembourg, PayPal (Europe) S.A.R.L. et Cie, SCA is subject to banking secrecy laws. In many cases, these laws apply not only to third-party transactions but also to transfers of information between ourselves and our subsidiaries, and between ourselves, our subsidiaries and other parties with which we have commercial relations. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. The interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, we have and post on our websites our own 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, subject us to significant penalties and negative publicity and adversely affect us. In addition, as noted above, we are subject to the possibility of security breaches, which themselves may result in a violation of these laws.

In addition, our GSI business utilizes “behavioral marketing” (generally, the tracking of a user's online activities) to deliver relevant content to Internet users. The Federal Trade Commission, or FTC, has released a Staff Report with principles to address consumer privacy issues that may arise from behavioral marketing and to encourage industry self-regulation. The FTC also has issued a Staff Report in December 2010 on consumer privacy policy, proposing a set of self-regulatory best practices and several policy recommendations for consideration by Congress, including institution of "do not track" mechanisms. In the future, regulations or legislation could, if enacted, prohibit the use of certain technologies that track individuals' activities on the Internet. Such laws and regulations could restrict our ability to collect and use page viewing data and personal information, which may reduce demand for GSI's ecommerce services and interactive marketing services businesses. If our interactive marketing products are perceived to cause or are otherwise unfavorably associated with invasions of privacy, whether or not illegal, we or our clients may be subject to public criticism. Existing and potential future privacy laws and increasing public concerns regarding data collection, privacy and security may cause some Internet users to be less likely to visit our clients' websites or otherwise interact with them. If enough consumers choose not to visit our customers' websites or otherwise interact with them, our customers could stop using our interactive marketing products, and the growth of these businesses could be harmed or it may not be possible to continue the current business models for these products.

Our revenue from advertising is subject to factors beyond our control.

We derive significant revenue from advertising on our websites. Revenues from online advertising are sensitive to events and trends that affect advertising expenditures, such as general changes in the economy and changes in consumer spending, as well as the effectiveness of online advertising versus offline advertising media and the value our websites provide to advertisers relative to other websites. Recent economic conditions have adversely impacted our advertising revenue. In addition, major search engine operators have the ability to change from time to time, at their sole discretion, the rules and search algorithms governing the pricing, availability, and placement of online advertising. Any changes in these rules or search algorithms could materially reduce the value that we derive from online advertising on our websites, either directly or indirectly. For example, retailers pay a fee to Shopping.com for online shoppers directed to their websites by Shopping.com. Rule changes made by search engines in 2008 disrupted traffic to our Shopping.com website, which in turn adversely affected click-through traffic to retailers from our Shopping.com website and associated fee revenue. Furthermore, we recently changed the placement of ads on our sites, which may reduce the amount we are paid. Finally, legislators and regulators in various jurisdictions, including the U.S. and the European Union, are reviewing Internet advertising models and the use of user-related data, and are considering proposals that could restrict or otherwise impact this business model. If we experience a reduction in our advertising revenues due to economic, competitive, regulatory, technological or other factors, including the worldwide economic slowdown, or due to the renegotiation of the terms of our contracts with major advertising companies or due to a reduction in our ability to effectively place advertisements on our sites or otherwise provide value to our advertisers, our business and financial results would suffer.

Our growth will depend on our ability to develop our brands, and these efforts may be costly.

We believe that continuing to strengthen our brands will be critical to achieving widespread acceptance of our services, and will require a continued focus on active marketing efforts across all of our brands. We will need to continue to spend substantial amounts of money on, and devote substantial resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Since 2005, we have significantly increased the number of brands we are supporting, adding Shopping.com, our classified websites (e.g., eBay Classifieds, Kijiji, Marktplaats and Den Blå Avis), StubHub, Bill Me Later and Gmarket, among others. Each of these brands requires its own resources, increasing the costs of our branding efforts. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building our brands. Also, major search engine operators that we use to advertise our brands have frequently-changing rules that govern their pricing, availability and placement of online advertisement (e.g., paid search, keywords), and changes to these rules could negatively affect our use of online advertising to promote our brands. If we fail to promote and maintain our brands, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, our business would be harmed.

New and existing regulations could harm our business.

We are subject to the same foreign and domestic laws as other companies conducting business on and off the Internet. It is not always clear how existing laws governing issues such as property ownership, copyrights, trademarks and other intellectual property issues, parallel imports and distribution controls, taxation, libel and defamation, obscenity, and personal privacy apply to online businesses such as ours. The majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Those laws that do reference the Internet, such as the U.S. Digital Millennium Copyright Act, the U.S. “CAN-SPAM” Act and the European Union's Directives on Distance Selling and Electronic Commerce, are being interpreted by the courts, but their applicability and scope remain uncertain. Furthermore, as our activities and the types of goods and services listed on our websites expand, including through acquisitions such as Bill Me Later and StubHub, regulatory agencies or courts may claim or hold that we or our users are subject to licensure or prohibited from conducting our business in their jurisdiction, either generally or with respect to certain actions (e.g., the sale of real estate, event tickets, cultural goods, boats and automobiles). Recent financial and political events may increase the level of regulatory scrutiny on large companies in general and financial services companies in particular.

Our success and increased visibility has driven some existing businesses that perceive our business model to be a threat to their business to raise concerns about our business models to policymakers and regulators. These established 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. In particular, 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. In addition, regulatory agencies may view matters or interpret laws and regulations differently than they have in the past. Changing the legal or regulatory regimes in a manner that would increase our liability for third-party listings could negatively impact our business.

Over the last few years some large retailers and their trade associations have sought legislation in a number of states and the U.S. Congress that would make eBay liable for the sale of stolen property or would ban certain categories of goods from sale on our platform, including gift cards and health and beauty products. No such legislation has passed. Nonetheless, the proponents continue to seek passage of such legislation, and if any of these laws are adopted they could harm our business.

Numerous states and foreign jurisdictions, including the State of California, where our headquarters are located, have regulations regarding "auctions" and the handling of property by "secondhand dealers" or "pawnbrokers." Several states and some foreign jurisdictions, including France, have attempted, and may attempt in the future, to impose such regulations upon us or our users. Attempted enforcement of these laws against some of our users appears to be increasing and such attempted enforcements could harm our business. In France, we have been sued by Conseil des Ventes, the French auction regulatory authority. The authority alleges that sales on our French website constitute illegal auctions that cannot be performed without its consent. Although we have won this lawsuit in the lower court, this decision is being appealed. A lawsuit alleging similar claims has been brought against us by two associations of French antique dealers, and is now pending on appeal after we won this lawsuit in the first instance. We intend to vigorously defend against these lawsuits. However, these and other regulatory and licensure claims could result in costly litigation and, if successful, could require us to change the way we or our users do business in ways that increase costs or reduce revenues (for example, by forcing us to prohibit listings of certain items for 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 become 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 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 in the Louis Vuitton Malletier litigation for transactions on some of our websites worldwide that did not involve French buyers or sellers (see "Item 1 - Legal Proceedings" above). Laws regulating Internet and ecommerce companies outside of the U.S. may be less favorable than those in the U.S., giving greater rights to consumers, content owners, competitors, users and other third parties. 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 our users may harm our business. In addition, we may be subject to overlapping legal or regulatory regimes that impose conflicting requirements on us. 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.

In light of the global financial crisis, U.S. federal lawmakers enacted legislation in 2010 overhauling the federal government's oversight of consumer financial products and systemic risk in the U.S. financial system. Although the full effect of the new legislation will be dependent on regulations to be adopted by a number of different agencies, we expect the general effect of the new law will be to require PayPal and Bill Me Later to make additional disclosures to their users and to impose new restrictions on certain of their activities. These new obligations will increase our costs and may result in increased litigation, the need to make expensive product changes and other adverse impacts on our business. In addition, we also expect that the continued implementation of the financial reform law enacted in 2010 will adversely impact some significant traditional revenue streams for banks, such as overdraft fees and debit card interchange fees. As a result, banks may need to revise their business models to remain profitable, which may lead them to charge more for services which were previously provided for free or at lower cost. Any resulting increases in service fees required for PayPal to process transactions (e.g., service fees for automated clearing house transactions) would increase our costs and adversely affect our business.

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

PayPal does not directly access payment card networks, such as Visa and MasterCard, which 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 this service. 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 using one of their cards. 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. Changes in interchange fees and assessments could increase PayPal's operating costs and reduce its profit margins. In addition, in some markets, governments have required Visa and MasterCard to reduce interchange fees, or have opened investigations as to whether Visa or MasterCard's interchange fees and practices violate antitrust law. In the United States, the financial reform law enacted in 2010 authorizes the Federal Reserve Board to regulate debit card interchange rates and debit card network exclusivity provisions, and in June 2011, the Federal Reserve Board voted to cap debit card interchange fees at significantly lower rates than Visa or MasterCard previously charged. Any 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 could also reduce PayPal's costs). While the regulations adopted by the Federal Reserve Board in June 2011 do not treat PayPal as a "payment card network," future changes to PayPal's business could potentially cause PayPal to be so treated, 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, 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 customers. The payment card networks set and interpret the card rules. Payment card networks could adopt new operating rules or re-interpret existing rules that PayPal or its processors might find difficult or even impossible to follow, or expensive to implement. As a result, PayPal could lose its ability to give customers the option of using payment cards to fund their payments, or could lose its ability to give customers the choice of currency in which they would like their card to be charged, which would reduce PayPal's revenues from cross-border trade. If PayPal were unable to accept payment cards, its business would be seriously damaged. In addition, the velocity of trade on eBay could decrease and our business would further suffer.

PayPal is required to comply with payment card networks' special operating rules for Internet payment services. PayPal and its payment card processors have implemented specific business processes for merchant customers in order to comply with these rules, but any failure to comply could result in fines, the amount of which would be within the payment card networks' discretion. PayPal also could be 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 payment card networks and conduct additional monitoring with respect to such merchants. PayPal has incurred fines from its payment card processors relating to PayPal's failure to detect the use of its service by "high risk" merchants. The amount of these fines has not been material, but any additional fines in the future would likely be for larger amounts, could become material, and could result in a termination of PayPal's ability to accept payment cards or changes in PayPal's process for registering new customers, which would seriously damage PayPal's business.

Similarly, consumers typically pay for purchases through GSI's ecommerce services platforms by payment card or similar payment method. Accordingly, GSI faces risks similar to the risks described above for PayPal.

Bill Me Later's operations expose us to additional risks.

Risks associated with our reliance on an unaffiliated lender in providing the Bill Me Later service are discussed in detail under the caption "Bill Me Later's operations depend on lending services provided by an unaffiliated lender" above.

The Bill Me Later service relies on third-party merchant processors and payment gateways to process transactions. For the six months ended June 30, 2011 and the fiscal year ended December 31, 2010, approximately 74% and 67%, respectively, of all transaction volume by dollar amount through the Bill Me Later service was settled through the facilities of a single vendor. Any disruption to these third party payment processing and gateway services would adversely affect the Bill Me Later service.

The Bill Me Later service is offered to a wide range of consumers, and the financial success of this business depends on the ability of the issuing bank of the Bill Me Later credit products to manage credit risk related to those products. The lender extends credit using Bill Me Later's proprietary segmentation and credit scoring algorithms and other analytical techniques designed to analyze the credit risk of specific customers based on their past purchasing and payment history as well as their credit scores. Based on these performance criteria, the lender may extend or increase lines of credit to consumers at the point of sale. These algorithms and techniques may not accurately predict the creditworthiness of a consumer due to, among other factors, inaccurate assumptions about a particular consumer or the economic environment. The accuracy of the predictions and the ability of the lender and us to manage credit risk related to the Bill Me Later service may also be affected by legal or regulatory changes (such as bankruptcy laws and minimum payment regulations), competitors' actions, changes in consumer behavior and other factors. The lender may also incorrectly interpret the data produced by these algorithms in setting its credit policies, which may impact the financial performance of the Bill Me Later service. In addition, economic and financial conditions in the U.S. may affect consumer confidence levels and reduce consumers' ability or willingness to use credit, including the credit extended by the lender to consumers who use the Bill Me Later service, which could impair the growth and profitability of this business.

We anticipate that the volume of credit extended by WebBank (the financial institution issuing the Bill Me Later credit products) will increase as we begin to enable qualified buyers with a PayPal account to use Bill Me Later as a payment funding option for transactions on eBay.com and on certain merchant websites that accept PayPal. We purchase the receivables relating to these consumer loans extended by the issuing bank, and therefore bear the risk of loss. Like other businesses with significant exposure to losses from consumer credit, the Bill Me Later service faces the risk that certain account holders will default on their payment obligations, making the receivables uncollectible and creating the risk of potential charge-offs. The rate at which receivables were charged off as uncollectible, or the net charge-off rate, was approximately 4.60% and 7.71%, respectively, for the six months ended June 30, 2011 and the fiscal year ended December 31, 2010. The nonpayment rate among Bill Me Later users may increase due to, among other things, worsening economic conditions, such as the current recession in the U.S., and higher 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 credit. The age and rate of growth of the receivables related to a consumer credit portfolio also affects the rate of missed payments and accounts charged off as uncollectible.

We currently fund the purchase of receivables related to Bill Me Later accounts through the sale of commercial paper, our cash balances and free cash flow generated from our portfolio of businesses. Effective September 1, 2010, we fund the purchase of receivables generated through new Bill Me Later accounts using funds from our international subsidiaries; this funding is facilitated through our Luxembourg-based bank. A downgrade in our credit ratings, particularly our short-term credit ratings, would likely reduce the amount of commercial paper we could issue (or, in certain circumstances, could prevent us from making commercial paper borrowings), increase our commercial paper borrowing costs, or both. If we are unable to fund our purchase of receivables related to the Bill Me Later business adequately or in a cost-effective manner, the growth and profitability of this business could be significantly and adversely affected.

Additionally, in providing the Bill Me Later service, we face other risks similar to those faced by PayPal, including the risk of system failures, security breaches or other loss of customer data, fraud, intellectual property claims, compliance failures, and changes to regulations relating to credit offerings (including those stemming from the continued implementation of the financial reform law enacted in 2010), as described elsewhere in these Risk Factors, including under the captions “Government inquiries may lead to charges or penalties” and “If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfer, money laundering, counter-terrorist financing, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices.”

Changes in PayPal's funding mix could adversely affect PayPal's results.

PayPal pays significant transaction fees when customers fund payment transactions using credit cards, lower payments when customers fund payments with debit cards, nominal fees when customers fund payment transactions by electronic transfer of funds from bank accounts, and no fees when customers fund payment transactions from an existing PayPal account balance or use buyer credit issued by GE Money Bank. As of October 2009, eligible U.S. customers may also fund payment transactions through a loan originated by an unaffiliated lender as part of the Bill Me Later service, and PayPal will incur no fees for such transactions. Customers fund a significant portion of PayPal's payment volume using credit cards, and PayPal's financial success will remain highly sensitive to changes in the rate at which its senders fund payments using credit cards. Senders may prefer funding using credit cards rather than bank account transfers for a number of reasons, including the ability to dispute and reverse charges directly with their credit card provider if merchandise is not delivered or is not as described, the ability to earn frequent flier miles, cash rebates, or other incentives offered by credit card issuers, the ability to defer payment, or a reluctance to provide bank account information to PayPal. In addition, some of PayPal's offerings, including the ability for buyers to make a limited number of payments without opening an account, have a higher rate of credit card funding than PayPal's basic product offering.

PayPal's failure to manage customer funds properly would harm its business.

PayPal's ability to manage and account accurately for customer funds requires a high level of internal controls. In some of the markets that PayPal serves and currencies that PayPal offers, PayPal has a limited operating history and limited management experience in managing these internal controls. As PayPal's business continues to grow, it must 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 customer funds accurately could severely diminish customer use of PayPal's products.

System failures could harm our business.

We have experienced system failures from time to time, and any interruption in the availability of our websites will reduce our current revenues and profits, could harm our future revenues and profits, and could subject us to regulatory scrutiny. Our eBay.com website has been interrupted for periods of up to 22 hours. In November 2009, technical systems issues resulted in eBay.com users being unable to search for listed items for a period of several hours. Our PayPal website has suffered intermittent unavailability for periods as long as five days, most recently for approximately three hours primarily on our ebay.co.uk site in May 2011. Other of our websites (e.g., StubHub) have experienced intermittent unavailability from time to time. Any unscheduled interruption in our services results in an immediate, and possibly substantial, loss of revenues. 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. Reliability is particularly critical for PayPal, especially as it seeks to expand its Merchant Services business. Because PayPal is a regulated financial institution, frequent or persistent site interruptions could lead to fines, penalties, or mandatory 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. Finally, because our customers may use our products for critical transactions, any system failures could result in damage to our customers' businesses. These customers could seek significant compensation from us for their losses. Even if unsuccessful, this type of claim likely would be time-consuming and costly for us to address.

Although our systems have been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, cyber attacks, computer viruses, computer denial-of-service attacks, human error, hardware or software defects or malfunctions, and similar events or disruptions. Some of our systems, including our Shopping.com website and the systems related to the Bill Me Later business, are not fully redundant, and our disaster recovery planning is not sufficient for all eventualities. Our systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions we may take, the occurrence of a natural disaster, a decision by any of our third-party hosting providers to close a facility we use without adequate notice for financial or other reasons, or other unanticipated problems at our hosting facilities could cause system interruptions, delays, and loss of critical data, and result in 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 system failures.

If we are unable to cost-effectively upgrade and expand our websites and platforms, our business would suffer.

We must constantly add new hardware, update software and add new engineering personnel to accommodate the increased use of our websites and platforms, and the new products and features we regularly introduce. As our PayPal business continues to grow, we are focused on updating our PayPal platform to provide increased scale, improved performance and additional built-in functionality addressing regulatory compliance matters (e.g., anti-money laundering). This upgrade process is expensive, and the increased complexity of our websites and the need to support multiple platforms as our portfolio of brands grows increases the cost of additional enhancements. Failure to upgrade our technology, features, transaction processing systems, security infrastructure, or network infrastructure in a cost-effective manner to accommodate increased traffic or transaction volume or changes to our site functionality could harm our business. Adverse consequences could include unanticipated system disruptions, slower response times, degradation in levels of customer support, impaired quality of users' experiences of our services, impaired quality of services for third-party application developers using our externally accessible application programming interfaces and delays in reporting accurate financial information, and could result in customer dissatisfaction and the loss of existing users on our websites. We may be unable to effectively upgrade and expand our systems in a timely manner or smoothly integrate any newly developed or purchased technologies or businesses with our existing systems, and any failure to do so could result in problems on our sites. Further, steps to increase the reliability and redundancy of our systems are expensive, reduce our margins, and may not be successful in reducing the frequency or duration of unscheduled downtime.

There are many risks associated with our international operations.

Our international expansion has been rapid and our international business, especially in Germany, Korea and the U.K., has also become critical to our revenues and profits. Net revenues outside the U.S. accounted for approximately 55% and 54% of our net revenues, respectively, in the six months ended June 30, 2011 and the fiscal year ended December 31, 2010.

Expansion into international markets, such as our entry into Turkey in May 2011 upon the completion of our acquisition of additional shares in GittiGidiyor and PayPal's entry into emerging markets, requires management attention and resources and requires us to localize our services to conform to local cultures, standards and policies. The commercial, financial, Internet, and

transportation infrastructure in lesser-developed countries may make it more difficult for us to replicate our business models. In many countries, we compete with local companies that understand the local market better than we do, and we may not benefit from first-to-market advantages. We may not be successful in expanding into particular international markets or in generating revenues from foreign operations. For example, in 2002 we withdrew our eBay marketplace offering from the Japanese market, and in 2007 we contributed our business in China to a joint venture with a local Chinese company. Even if we are successful in developing new markets, we often expect the costs of operating new sites to exceed our net revenues from those sites for at least 12 months in most countries.
As we continue to expand internationally, including through the expansion of our businesses, we are increasingly subject to risks of doing business internationally, including the following:

- strong local competitors;
- regulatory requirements, including regulation of Internet services, auctioneering, professional selling, distance selling, privacy and data protection, banking, and money transmitting, that may limit or prevent the offering of our services in some jurisdictions, prevent enforceable agreements between sellers and buyers, prohibit the listing of certain categories of goods, require product changes, require special licensure, subject us to various taxes, penalties or audits, or limit the transfer of information between us and our affiliates;
- greater liability or legal uncertainty regarding our liability for the listings and other content provided by our users, including uncertainty as a result of legal systems that are less developed with respect to the Internet, unique local laws, conflicting court decisions and lack of clear precedent or applicable law;
- cultural ambivalence towards, or non-acceptance of, online trading or online payments;
- laws and business practices that favor local competitors or prohibit or limit foreign ownership of certain businesses;
- difficulties in integrating with local payment providers, including banks, credit and debit card networks, and electronic fund transfer systems;
- differing levels of retail distribution, shipping, and Internet infrastructures;
- different employee/employer relationships and labor laws, and the existence of workers' councils and labor unions;
- difficulties in staffing and managing foreign operations;
- challenges associated with joint venture relationships and minority investments, including dependence on our joint venture partners;
- difficulties in implementing and maintaining adequate internal controls;
- longer payment cycles, different accounting practices, and greater problems in collecting accounts receivable;
- potentially adverse tax consequences, including local taxation of our fees or of transactions on our websites;
- higher Internet service provider costs;
- different and more stringent user protection, data protection, privacy and other laws;
- seasonal reductions in business activity;
- expenses associated with localizing our products, including offering customers the ability to transact business in the local currency;
- foreign exchange rate fluctuations;
- our ability to repatriate funds from abroad without adverse tax consequences;
- the possibility that foreign governments may impose currency controls or other restrictions on the repatriation of funds;
- volatility in a specific country's or region's political, economic or military conditions (e.g., in South Korea relating to its disputes with North Korea);
- challenges associated with maintaining relationships with local law enforcement and related agencies;
- potentially higher incidence of fraud and corruption and higher credit loss risks; and
- differing intellectual property laws.

Some of these factors may cause our international costs of doing business to exceed our comparable domestic costs. As we expand our international operations and have additional portions of our international revenues denominated in foreign currencies, we also could become subject to increased difficulties in collecting accounts receivable and repatriating money without adverse tax consequences, and increased risks relating to foreign currency exchange rate fluctuations. The impact of currency exchange rate fluctuations is discussed in more detail under the caption “We are exposed to fluctuations in currency exchange rates and interest rates” above.

In addition, we conduct certain functions, including product development, customer support and other operations, in regions outside the U.S., particularly in India and China. We are subject to both U.S. and local laws and regulations applicable to our offshore activities, and any factors which reduce the anticipated benefits, including cost efficiencies and productivity improvements, associated with providing these functions outside of the U.S. could adversely affect our business.

We maintain a portion of Shopping.com's research and development facilities and personnel in Israel, and in 2008 we acquired Fraud Sciences Ltd., an Israeli company. Political, economic and military conditions in Israel affect those operations. The future of peace efforts between Israel and its neighboring countries remains uncertain. Increased hostilities or terrorism within Israel or armed hostilities between Israel and neighboring countries or other entities could make it more difficult for us to continue our operations in Israel, which could increase our costs. In addition, many of our employees in Israel could be required to serve in the military for extended periods of time under emergency circumstances. Our Israeli operations could be disrupted by the absence of employees due to military service, which could adversely affect our business.

Acquisitions, joint ventures and strategic investments could result in operating difficulties, dilution, and other harmful consequences.

On June 17, 2011, we completed our acquisition of GSI Commerce, Inc., which provides ecommerce and interactive marketing services. For a discussion of new risks associated with our GSI business, please see the caption "Our acquisition of GSI Commerce, Inc. exposes us to new risks," below. In May 2011, we completed our acquisition of additional shares of GittiGidiyor, a Turkish online marketplace, increasing our ownership stake in GittiGidiyor to approximately 93%. For a discussion of risks associated with our expansion into Turkey, which represents a new international market for us, please see the risk factor caption "There are many risks associated with our international operations," above. We also recently announced that we have agreed to acquire Magento, an open source ecommerce platform provider, and Zong, which provides for payments through mobile carrier billing.

We expect to continue to evaluate and consider a wide array of potential strategic transactions, including business combinations, acquisitions and dispositions of businesses, technologies, services, products and other assets, as well as strategic investments and joint ventures. At any given time we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations.

The process of integrating any acquired business may create unforeseen operating difficulties and expenditures and is itself risky. The areas where we may face difficulties include:

- diversion of management time, as well as a shift of focus from operating the businesses to issues related to integration and administration, particularly given the number, size and varying scope of our recent acquisitions;
- declining employee morale and retention issues resulting from changes in, or acceleration of, compensation, or changes in management, reporting relationships, future prospects, or the direction of the business;
- the need to integrate each company's accounting, management, information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- the need to implement controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition had lacked such controls, procedures and policies;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries;
- in some cases, the need to transition operations, users, and customers onto our existing or new platforms; and
- liability for activities of the acquired company before the acquisition, including violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

Moreover, we may not realize the anticipated benefits of any or all of our acquisitions, or may not realize them in the time frame expected. Future acquisitions or mergers may require us to issue additional equity securities, spend our cash, or incur debt, liabilities, 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.

In addition, we have made certain investments, including through joint ventures, in which we have a minority equity interest and lack management and operational control. The controlling joint venture partner in a joint venture investment 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 expose us to other risks. For example, GSI's minority interest in Intershop Communications AG is governed by

German law, which could subject us to liability for certain disadvantages to Intershop if we were deemed to be in control of Intershop under German law.

Our acquisition of GSI Commerce, Inc. exposes us to new risks.

Our GSI business faces certain risks and challenges not shared by our other businesses, including those described under the risk factor captions "If our GSI business is unable to enhance its platform and migrate clients to that new platform in a timely and cost-effective manner, it would be substantially harmed" and "Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business" and the following:

- Importance of Enterprise Client Relationships. Key elements of the growth strategies of our GSI business include adding new clients and extending the term of existing client agreements. Competition for clients is intense, and our GSI 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 a GSI client could adversely affect our relationship with that client. In addition, many of our client contracts contain service level commitments. If our GSI business is unable to meet these commitments, its relationships with its clients could be damaged, and client rights to terminate their contracts with GSI and financial penalty provisions payable by GSI may be triggered. If any existing GSI clients were to exit the business we provide services to, be acquired, declare bankruptcy, suffer other financial difficulties, fail to pay amounts owed to GSI, and/or terminate or modify their relationships with GSI, our GSI business could be adversely affected. If agreements with existing clients expire or are terminated, GSI may be unable to renew or replace these agreements on comparable terms, or at all.

- GSI's ecommerce services revenues are tied to the growth of the online businesses of its clients, which may be impacted by the offline businesses of those clients. A portion of GSI's ecommerce services revenue is derived from the value of ecommerce transactions that flow through GSI's ecommerce services business. Accordingly, growth in GSI's ecommerce services revenue depends upon the continued growth of the online businesses of its clients. GSI's ecommerce services business may be substantially impacted by any adverse conditions in the offline businesses of GSI's clients that negatively impact a client's online businesses, and the impairment of the offline business of GSI 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 adversely affect GSI's ecommerce services business. If any of these were to occur, consumer traffic and sales through GSI's clients' websites could be negatively affected, which would result in decreasing revenues generated by the GSI business. GSI's 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 GSI service fees based either on a fixed or variable percentage of revenues, or on the activity performed. As a result, if GSI's clients fail to accurately forecast product demand or optimize or maintain access to inventory, the client's ecommerce business (and, in turn, GSI's service fees) could be adversely affected.

- Marketing and Promotional Arrangements. Our GSI 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 GSI business relies on these relationships as significant sources of traffic to 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.

- Shipping Vendors. Our GSI business relies upon multiple third parties to ship the products sold in its clients' web stores. As a result, we are subject to the risks associated with the ability of these vendors and other third parties to successfully and timely fulfill and ship customer orders, as well as any price increases instituted by these vendors (e.g., fuel surcharges). The failure of these vendors to provide these services, or the termination or interruption of these services, could adversely affect the satisfaction of consumers, which in turn could result in reduced sales by GSI's clients' web stores.

- Storage of Customer Inventory. Our GSI business holds inventory on behalf of its ecommerce services customers, and GSI generally bears the risk of loss for such inventory. If GSI is unable to effectively manage and handle this inventory, this may result in unexpected costs that could adversely affect our GSI business. Any theft of such inventory, or damage or interruption to such inventory, including as a result of earthquakes, floods, fire, power loss, labor disputes, terrorist attacks, and similar events and disruptions, could result in losses related to such inventory and disruptions to GSI's customers' businesses, which could in turn adversely affect our GSI business.

- Reliance on email. GSI's interactive marketing solutions business relies on email marketing to drive consumer traffic to the web stores in GSI's ecommerce services business. Email could become a less effective means of communicating with and marketing to consumers for a variety of reasons, including the following: problems with technology that make GSI's email communications more difficult to deliver and for consumers to read (e.g., the inability of smart phones or similar communication 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 consumer's 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 GSI 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 traffic to GSI's clients' ecommerce businesses and the demand for GSI's email marketing solutions could decrease and our GSI business could be harmed.

- Risks associated with our relationship with NRG Commerce, LLC. Immediately following our acquisition of GSI, eBay sold 100% of GSI's sports merchandise business and 70% of its RueLaLa and ShopRunner businesses (which we refer to collectively as the divested entities), to NRG Commerce, LLC, which we refer to as NRG. NRG is wholly-owned by GSI's former Chairman, President and Chief Executive Officer, Mr. Michael Rubin. Each of the divested entities was a direct or indirect wholly-owned subsidiary of GSI Commerce. In connection with (and as a result of) the divestiture to NRG, our GSI business maintains certain commercial and financial relationships with the divested entities which expose it to certain risks of the businesses of NRG and the divested entities.

Our GSI business and the divested entities are parties to certain services agreements pursuant to which our GSI business will provide certain services to NRG. If GSI and NRG were to become engaged in disputes about these agreements and the parties' respective obligations under these agreements, management of GSI could be distracted from other clients and the business of GSI could be disrupted and substantially harmed.

Our GSI business is also party to certain acquisition agreements relating to entities purchased by GSI prior to our acquisition, and which relate to businesses owned by the divested entities. NRG has agreed to indemnify GSI for certain liabilities incurred by GSI under these acquisition agreements. If such liabilities were realized and NRG was not able or willing to meet its indemnification obligations, GSI would be liable for them and its business could be harmed.

As part of the NRG divestiture, we loaned NRG and the divested entities $467 million, which is secured by certain assets of the divested entities. NRG and the divested entities' ability to repay this obligation is dependent on the financial performance of NRG and the divested entities. If NRG is unable to repay this obligation, our results of operations and financial condition could be harmed.
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 such as eBay 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, some jurisdictions have implemented or may implement laws specifically addressing the Internet or some aspect of ecommerce. For example, the State of New York has passed legislation that requires any out-of-state seller of tangible personal property to collect and remit New York use tax if the seller engages affiliates above certain financial thresholds in New York to perform certain business promotion activities. Several ecommerce companies are challenging this new law. Also, in June 2011 California enacted legislation (ABx1 28) that requires certain out-of-state retailers to collect and remit California use tax on taxable sales to California purchasers when the retailer has a relationship with a person in the State that refers customers to the retailer. The new California law is similar to the law passed in New York, but provides exclusions for certain forms of Internet marketing and is limited to retailers who exceed prescribed sales volume thresholds. However, if our sellers who are not already required to collect California state or use tax believe that their use of our websites requires them to collect California use tax, they may elect to limit their use of our websites rather than collect the tax, which would harm our business. North Carolina, Rhode Island, Illinois, Arkansas and South Dakota have also enacted similar laws related to affiliates, and a number of other states appear to be considering similar legislation. The adoption of such legislation by states where eBay has significant operations that perform certain business promotion activities 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 less attractive for small business retailers, and would harm our business.

The State of Colorado has enacted legislation that takes a different approach by imposing a set of use tax collection notice and reporting requirements (but not the actual tax collection responsibility) on certain retailers with no physical presence in Colorado. The law is designed to aid Colorado in collecting use tax from Colorado residents who purchase taxable items from out-of-state retailers. The regulation promulgated by the Colorado Department of Revenue excludes from these reporting obligations businesses that sell $100,000 or less into the state in a calendar year, thus limiting the impact on our sellers. The law has been challenged in Federal Court by a number of out-of-state retailers and a Federal District Court has issued an injunction blocking enforcement of the regulations pending a resolution of the case. Oklahoma has enacted a similar law. While the recent laws in New York, North Carolina, Rhode Island, Illinois, Arkansas, South Dakota, Oklahoma and Colorado do not specifically apply to our business, the proliferation of such state legislation, to expand sales and use tax collection on Internet sales, could adversely affect some of our sellers and indirectly harm our business.

In conjunction with the Streamlined Sales Tax Project — an ongoing, multi-year effort by U.S. state, and local governments to require collection and remittance of remote sales tax by out-of-state sellers — H.R. 5660, the Main Street Fairness Act, was most recently introduced in the 111th Session of the U.S. Congress. The Act, which was not enacted prior to the adjournment of the Congress, would allow states that meet certain simplification and other standards to require out-of-state sellers to collect and remit sales taxes on goods purchased by in-state residents. Sellers meeting an as yet undefined small seller exception would be excluded from the requirements of the Act. This legislation, which may be reintroduced in the 112th Congress as a way to enable states to increase sales tax revenues and help address significant state budgetary shortfalls caused by the economic downturn. The adoption of this Act or similar legislation that lacks a robust small business exemption would result in the imposition of sales taxes and additional costs associated with complex sales tax collection, remittance and audit compliance requirements on our sellers. This would make selling on our websites less attractive for small retailers, and would harm our business.

From time to time, some taxing authorities have notified us that they believe we owe them certain taxes. In May 2008, the City of Chicago notified both eBay and StubHub that they are liable for a city amusement tax on tickets to events in Chicago, irrespective of the location of the buyer or seller, and filed suit to enforce collection of taxes it claims are due. In March 2009, the court ruled that StubHub is not required to collect and remit the city amusement tax. The City of Chicago requested reconsideration of this ruling and StubHub sought clarification of the ruling relative to the remaining counts as well. In August 2009, the court entered a final order dismissing the case against StubHub. In December 2009, the court also dismissed the case against eBay. The City of Chicago appealed both matters to the Seventh Circuit Court of Appeals. The Seventh Circuit recently issued an opinion in the StubHub matter rejecting the federal arguments advanced by StubHub and certifying the state law arguments to the Illinois State Supreme Court. The Seventh Circuit is holding its ruling on the eBay matter in abeyance pending a resolution of the StubHub proceedings. The application of similar existing or future laws could adversely affect our business.

Several proposals have been made at the U.S. state and local level 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. 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 November 2014. 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.

Similar issues exist outside of the U.S., where the application of VAT or other indirect taxes on ecommerce providers such as eBay is uncertain and evolving. While we attempt to comply in those jurisdictions where it is clear that a tax is due, certain of our subsidiaries have, from time to time, received claims relating to the applicability of indirect taxes to our fees. Should such taxes become applicable, our business could be harmed. We collect and remit indirect taxes in certain jurisdictions. However, tax authorities may raise questions about our obligation to collect and remit such taxes, as well as the proper calculation of such taxes. For example, a Korean tax authority is currently asserting that certain coupons and incentives available on our sites should not be deducted when computing taxes on our fees. Should any new taxes become applicable to our fees or if the taxes we pay are found to be deficient, our business could be harmed.

We do not collect taxes on the goods or services sold by users of our services. One or more states or the federal government or foreign countries may seek to impose a tax collection, reporting or record-keeping obligation 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 discussed in the U.S. Congress, several states, and a number of foreign jurisdictions) or if an eBay company was ever deemed to be the legal agent of the users of our services by a jurisdiction in which eBay operates. In July 2008, the Housing and Economic Recovery Act of 2008 (H.R. 3221) was signed into law. This law contains provisions that require companies that provide payments over electronic means to users to report to the Internal Revenue Service (IRS) information on payments received by certain customers. . The legislation, effective for payments received after December 31, 2010, requires PayPal and other electronic payments providers, as well as potentially StubHub and similar companies, to report to the IRS on customers subject to U.S. income tax who receive more than $20,000 in payments and more than 200 payments in a year, to request tax ID numbers from U.S. taxpayers and track payments by tax ID number, and to withhold a proportion of payments and forward such withholding to the IRS if customers who receive more than 200 payments do not provide correct and complete information. We have had to modify our software to meet these requirements and expect increased operational costs in connection with complying with these reporting obligations. The IRS regulations may also require us to collect a certification of non-U.S. taxpayer status from international merchants. These requirements may decrease seller activity on our sites and harm our business. Any failure by us to meet these new requirements could result in substantial monetary penalties and other sanctions and could harm our business.

One or more other jurisdictions 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. Imposition of a discriminatory record keeping or tax collecting requirement could decrease seller activity on our sites and would harm our business. Foreign authorities may also require eBay to help ensure compliance by our users with local laws regulating professional sellers, including tax 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 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.

We continue to work with the relevant tax authorities and legislators to clarify eBay's obligations under new and emerging laws and regulations. Passage of new legislation and the imposition of additional tax or tax-related reporting requirements could harm our users and our business. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which eBay conducts or will conduct business.

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. Many jurisdictions have laws and regulations covering the resale of event tickets. Some jurisdictions prohibit the resale of event tickets 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 may be adopted that 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 or that we or our users are either subject to licensure or prohibited from reselling event tickets in their jurisdictions. In October 2007, two plaintiffs filed a purported class action lawsuit in North Carolina Superior Court alleging that StubHub sold (and facilitated and participated in the sale) of concert tickets to plaintiffs with the knowledge that the tickets were resold in violation of North Carolina's maximum ticket resale price law (which has been subsequently amended). In February 2011, the trial court granted plaintiffs' motion for summary judgment, concluding that immunity under the Communications Decency Act did not apply. The trial court further held that StubHub violated the North Carolina unfair and deceptive trade practices statute as it pertains to the two named plaintiffs, and certified its decision for immediate appeal to the North Carolina Court of Appeals. StubHub has appealed this decision.

Some event organizers and professional sports teams have expressed concern about the resale of their event tickets on our sites. Suits 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 litigation could result in damage awards, could require us to change our business practices in ways that may be harmful to our business, or could otherwise negatively affect our tickets business.

Our tickets business is subject to seasonal fluctuations and the general economic and business conditions that impact the sporting events and live entertainment industries. The recent economic downturn has resulted in a decrease in ticket prices sold on our sites and has negatively impacted revenue and profits. In addition, a work stoppage, strike or lockout by a professional sports league (for example, the current lockouts by each of the National Football League and the National Basketball Association) could result in the cancellation of all or a portion of the games in a league's season, which would harm our tickets business. In addition, a portion of StubHub's tickets inventory is held in digital form. Systems failures or other disruptions that result in the loss of such tickets inventory could materially harm our tickets business.

Our tickets business also faces significant competition from a number of sources, including ticketing service companies (such as Live Nation Entertainment (formerly Ticketmaster), AEG, Comcast-Spectacor and Tickets.com), event organizers (such as professional sports teams and leagues), ticket brokers, and other online and offline ticket resellers, such as TicketsNow (which is owned by Live Nation Entertainment) and RazorGator. In addition, some ticketing service companies and event organizers have begun to issue event tickets through various forms of electronic ticketing systems that are designed to restrict or prohibit the transferability of such event tickets. Ticketing service companies have also begun to use market-based pricing strategies or dynamic pricing to charge much higher prices that they historically have for premium tickets. Besides charging higher prices, these ticketing service companies have also imposed additional restrictions on transferability for these types of tickets, such as requiring customers to pick up these tickets at will-call with the purchasing credit card. To the extent that event tickets issued in this manner cannot be resold on our websites, or to the extent that we are otherwise unable to compete with these competitors, our tickets business would be harmed.

We depend on key personnel.

Our future performance depends substantially on the continued services of our senior management and other key personnel and our ability to retain and motivate them. We do not have long-term employment agreements with any of our key personnel, we do not maintain any “key person” life insurance policies, and some members of our senior management team have fully vested the vast majority of their in-the-money equity incentives. The loss of the services of any of our executive officers or other key employees could harm our business. We currently have a number of vacancies on our senior management team (including President, eBay Marketplaces) that we are seeking to fill.

Our businesses all depend on attracting and retaining key personnel. Our future success also will depend on our ability to attract, train, retain and motivate highly skilled technical, managerial, marketing, and customer support personnel. Competition for these personnel is intense, and we may be unable to successfully attract, integrate, or retain sufficiently qualified 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. Fluctuations in our stock price may make it more difficult to retain and motivate employees whose stock option strike prices are substantially above current market prices. Similarly, decreases in the number of unvested in-the-money stock options held by existing employees, whether because our stock price has declined, options have vested, or because the size of follow-on option grants has declined, may make it more difficult to retain and motivate employees.

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

A number of parties provide services to us or to our users that benefit us. 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, caching services that make our sites load faster, and shipping providers that deliver goods sold on our platform, among others. In some cases we have contractual agreements with these companies that give us a direct financial interest in their success, while in other cases we have none. PayPal is dependent on the processing companies and banks that link PayPal to the payment card and bank clearing networks. Similarly, Bill Me Later relies on an unaffiliated lender in providing the Bill Me Later service 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 or work stoppages) or other problems that prevent these companies from providing services to us or our users could reduce the number of listings on our websites or make completing transactions or payments on our websites more difficult, thereby harming our business. In addition, price increases by companies that provide services to our users (such as postal and delivery services) could also reduce the number of listings on our websites or make it more difficult for our users to complete transactions, thereby harming our business. Any security breach at a company providing services to our users could also adversely affect our customers and harm our business.

In addition, we have outsourced certain functions to third-party providers, including 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 adversely affect our business, reputation and operating results.

Although we generally have been able to renew or extend the terms of contractual arrangements with, or if necessary replace, third parties who provide services to us on acceptable terms, there can be no assurance that we will continue to be able to do so in the future. If any third parties were to stop providing services to us on acceptable terms, including as a result of bankruptcy due to poor economic conditions, we may be unable to procure alternatives from other third parties in a timely and efficient manner and on acceptable terms, or at all. In addition, there can be no assurance that third parties who provide services directly to our users will continue to do so on acceptable terms, or at all.

Customer complaints or negative publicity about our customer support or anti-fraud measures could diminish use of our services.
Customer complaints or negative publicity about our customer support could severely diminish consumer confidence in and use of our services. Measures that we sometimes take to combat risks of fraud and breaches of privacy and security have the potential to damage relations with our customers or decrease activity on our sites by making our sites more difficult to use or restricting the activities of certain users. These measures heighten the need for prompt and accurate customer support to resolve irregularities and disputes. Effective customer support requires significant personnel expense, and this expense, if not managed properly, could significantly impact our profitability. Failure to manage or train our own or outsourced customer support representatives properly could compromise our ability to handle customer complaints effectively. If we do not handle customer complaints effectively, our reputation may suffer and we may lose our customers' confidence.
Because it is providing a financial service and operating in a more regulated environment, PayPal must provide telephone as well as email customer support and must resolve certain customer contacts within shorter time frames. As part of PayPal's program to reduce fraud losses and prevent money laundering, it may temporarily restrict the ability of customers to withdraw their funds if those funds or the customer's account activity are identified by PayPal's risk models as suspicious. PayPal has in the past received negative publicity with respect to its customer support and account restrictions, and has been the subject of purported class action lawsuits and state attorney general inquiries alleging, among other things, failure to resolve account restrictions promptly. In the second quarter of 2010, two putative class-action lawsuits (Devinda Fernando and Vadim Tsigel v. eBay Inc. and PayPal, Inc.; and Moises Zepeda v. PayPal, Inc.) were filed in the U.S. District Court in the Northern District of California. These lawsuits contain allegations that PayPal improperly held user's funds or otherwise improperly limited user's accounts. These lawsuits seek damages as well as changes to PayPal's practices among other remedies. A determination that there have been violations of laws relating to PayPal's practices can expose PayPal to significant liability. Changes to PayPal's practices that may result from these lawsuits could require PayPal to incur significant costs and to expend product resources, which could cause delay to other planned product improvements, which would further harm our business. If PayPal is unable to provide quality customer support operations in a cost-effective manner, PayPal's users may have negative experiences, PayPal may receive additional negative publicity, its ability to attract new customers may be damaged, and it could become subject to additional litigation. As a result, current and future revenues could suffer, losses could be incurred, and its operating margins may decrease.
In addition, negative publicity about, or negative experiences with, customer support for any of our businesses could cause our reputation to suffer or affect consumer confidence in our brands individually or as a whole.
Our industries are intensely competitive.
Marketplaces
Our Marketplaces businesses currently or potentially compete with a large number of companies providing particular categories of goods and/or broader ranges of goods. The Internet provides new, rapidly evolving and intensely competitive channels for the sale of all types of goods. We expect competition to intensify in the future. The barriers to entry into these channels can be relatively low and current offline and new competitors, including small businesses who want to create and promote their own stores, can easily launch online sites at nominal cost using commercially available software or partnering with any one of a number of successful ecommerce companies. Moreover, online and offline business increasingly are competing with each other. Consumers who purchase or sell goods and services through our Marketplaces businesses have more and more alternatives.
Our competitors include the vast majority of traditional department, warehouse, discount, and general merchandise stores (as well as the online operations of these traditional retailers), emerging online retailers, online classified services, and other shopping channels such as offline and online home shopping networks. In the U.S., these include Wal-Mart, Target, Sears, Macy's, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam's Club, Amazon.com, Buy.com (owned by Rakuten), AOL.com, Yahoo! Shopping, MSN, QVC, and Home Shopping Network, among others.
A number of companies offer a variety of services that provide 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), Google Merchant Center, Oodle.com and a number of international websites operated by Schibsted ASA. In certain markets, our fixed-price listing and traditional auction-style listing formats are increasingly being challenged by other formats, such as classifieds. Our classifieds websites, including eBay Classifieds, Kijiji, Marktplaats, mobile.de, Gumtree, Den Blå Avis, BilBasen and Rent.com, offer classifieds listings in the U.S. and a variety of local international markets. In many markets in which they operate, including in the U.S., our classified platforms compete against more established online and offline classifieds platforms.

Our online shopping comparison site, Shopping.com, competes with sites such as Buy.com, Google's Product Search, Nextag.com, Pricegrabber.com, Shopzilla, and Yahoo! Product Search, which offer shopping search engines that allow consumers to search the Internet for specified products. Recent legal developments may affect the utility of shopping comparison sites if manufacturers limit variation in product pricing. In addition, sellers are increasingly utilizing multiple sales channels, including the acquisition of new customers by paying for search-related advertisements on search engine sites such as Google, Bing and Yahoo!. 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.

We also compete with many local, regional, and national specialty retailers and exchanges in each of the major categories of products offered on our site. For example, category-specific competitors to offerings in our "Home and Garden" category include, among others, Ashley Furniture, Bed, Bath & Beyond, Brylane, Crate & Barrel, CSN Stores, Frontgate, Haverty's, IKEA, Hayneedle, Home Depot, Kohl's, Lamps Plus, Lowe's, Lumber Liquidators, Menards, OSH, Pier One, Pottery Barn, Rooms to Go, Williams-Sonoma and World Market, antique and collectible dealers, antique and collectible fairs, auction houses, estate sales, flea markets and swap meets, independent coin and stamp dealers, and specialty retailers.

Our international Marketplaces websites compete with similar online and offline channels in each of their vertical categories in most countries. In addition, they compete with general online ecommerce sites, such as: Quelle and Otto in Germany; Leboncoin.fr and PriceMinister (owned by Rakuten) in France; Taobao in China; Tradus (owned by Naspers) in Poland; Yahoo-Kimo in Taiwan; Lotte, Naver and 11th Street in South Korea; Trading Post, OZtion and Aussie Bidder in Australia; and Amazon and Play.com in the United Kingdom and other countries. In some of these countries, there are online sites that have much larger customer bases and greater brand recognition than we do, and in certain of these jurisdictions there are competitors that may have a better understanding of local culture and commerce than we do. As our businesses in less-developed countries grow, we increasingly may compete with domestic competitors which have advantages we do not possess, such as a greater ability to operate under local regulatory authorities.

The principal competitive factors for Marketplaces include the following:

- ability to attract and retain buyers and sellers;
- volume of transactions and price and selection of goods;
- trust in the seller and the transaction;
- customer service; and
- brand recognition.

With respect to our online competition, additional competitive factors include:

- community cohesion, interaction and size;
- website ease-of-use and accessibility;
- system reliability;
- reliability of delivery and payment;
- 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. Other online ecommerce sites may be acquired by, receive investments from, or enter into other commercial relationships with well-established and well-financed companies. As a result, some of our competitors with other revenue sources may be able to devote more resources to marketing and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to website and systems development than we can. Some of our competitors may offer or continue to offer free shipping or other transaction-related services which improve the user experience on their sites and which could be impractical or inefficient for eBay sellers to match. New technologies may increase the competitive pressures by enabling our competitors to offer more efficient or lower-cost services.

In addition, certain established retailers may encourage manufacturers to limit or cease distribution of their products to dealers who sell through online channels such as eBay, or may attempt to use existing or future government regulation to prohibit or limit online commerce in certain categories of goods or services. For example, manufacturers may attempt to enforce minimum resale price maintenance arrangements to prevent distributors from selling on our websites or on the Internet generally, or at prices that would make our site attractive relative to other alternatives. The adoption by manufacturers of policies, or the adoption of new laws or regulations or interpretations of existing laws or regulations by government authorities, in each case discouraging the sales of goods or services over the Internet, could force eBay users to stop selling certain products on our websites. Increased competition or anti-Internet distribution policies or regulations may result in reduced operating margins, loss of market share and diminished value of our brands. In order to 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 some of our sellers, which could reduce activity on our websites and harm our profitability.

Although we have established Internet traffic arrangements with several large online services and search engine companies, these arrangements may not be renewed on favorable terms or these companies may decide to promote competitive services. Even if these arrangements are renewed, they may not result in increased usage of our sites. In addition, companies that control user access to transactions through network access, Internet browsers, or search engines could promote our competitors, channel current or potential users to their vertically integrated electronic commerce sites or their advertisers' sites, attempt to restrict access to our sites, or charge us substantial fees for inclusion. Search engines are increasingly becoming a starting point for online shopping, and as the costs of operating an online store continue to decline, online sellers may increasingly sell goods through multiple channels, which could reduce the number and value of transactions these sellers conduct through our sites.

PayPal

The markets for PayPal's product are intensely competitive and are subject to rapid technological change, including but not limited to: mobile payments, electronic funds transfer networks starting to allow Internet access, cross-border access to networks, creation of new networks, expansion of prepaid cards, and bill pay networks. PayPal competes with existing online and offline payment methods, including, among others:

- payment card merchant processors that offer their services to online merchants and multi-channel merchants, including American Express, Chase Paymentech, First Data, Wells Fargo, WorldPay, Barclays Merchant Services, Global Payments, Inc. and Square; and payment gateways, including CyberSource (which Visa has acquired) and Authorize.net (which has merged with CyberSource);
- money remitters such as MoneyGram, Western Union, Global Payments, Inc. and Euronet;
- bill payment services, including CheckFree, a subsidiary of Fiserv;
- processors that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account or paying on credit, including the newly-announced ClearXchange joint venture among Wells Fargo, Bank of America and JP Morgan Chase, , Acculynk, Moneta, eBillMe, and TeleCheck, a subsidiary of First Data, and Sofortuberweisung in Germany;
- providers of “digital wallet” services that offer customers the ability to pay online or on mobile devices through a variety of payment methods, including a new service announced by Visa, American Express's newly-launched Serve, and Google Wallet;
- providers of traditional payment methods, particularly credit cards, checks, money orders, and Automated Clearing House transactions;
- issuers of stored value targeted at online payments, including VisaBuxx, NetSpend, Green Dot, PayNearMe and UKash;
- mobile payments, including Obopay, Amazon Payments, ISIS, Buyster, Mpass, O2 Money, Crandy, Payfone, LUUP and Payforit;
- Amazon Payments, which offers online merchants the ability to accept credit card- and bank-funded payments from Amazon's base of online customers on the merchant's own website;
- Google Checkout, which enables the online payment of merchants using credit cards;
- AliPay, which operates primarily in China but has announced plans to expand internationally;
- Other providers of online account-based payments, such as Moneybookers and ClickandBuy (primarily in the EU), Paymate and Visa PayClick in Australia,
- payment services targeting users of social networks and online gaming, including Facebook and Hi5 credits, PlaySpan (which Visa has acquired) and Boku;
- payment services enabling banks to offer their online banking customers the ability to send and receive payments through their bank account, including ZashPay from Fiserv and Popmoney from CashEdge, both of

which have announced collaboration agreements with Visa; and

- online shopping services that provide special offers linked to a specific payment provider, such as Visa's RightCliq, MasterCard MarketPlace, TrialPay and Tapjoy.

Some of these competitors have longer operating histories, significantly greater financial, technical, marketing, customer service and other resources, greater name recognition, or a larger base of customers in affiliated businesses than PayPal. PayPal's competitors may respond to new or emerging technologies and changes in customer requirements faster and more

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effectively than PayPal. Some of these competitors may also be subject to less burdensome licensing, anti-money laundering, and other regulatory requirements than PayPal, which is subject to additional regulations based on, among other factors, its licensure as a bank in Luxembourg. They may devote greater resources to the development, promotion, and sale of products and services than PayPal, and they may offer lower prices. For example, Google Checkout has offered free payments processing on transactions in an amount proportionate to certain advertising spending with Google. 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 U.S., established banks and other financial institutions that do not currently offer online payments could quickly and easily develop such a service.
The principal competitive factors for PayPal include the following:

- ability to attract and retain both buyers and sellers with relatively low marketing expense;
- ability to show that sellers will achieve incremental sales by offering PayPal;
- security of transactions and the ability for buyers to use PayPal without sharing their financial information with the seller;
- low fees and simplicity of fee structure;
- ability to develop services across multiple commerce channels, including mobile payments and payments at the physical point of sale;
- trust in PayPal's dispute resolution and buyer and seller protection programs;
- customer service; and
- brand recognition.

With respect to our online competition, additional competitive factors include:

- website ease-of-use and accessibility;
- system reliability;
- data security; and
- quality of developer tools such as our Application Programming Interfaces and Software Development Kits.

Some of PayPal's competitors, such as Wells Fargo, First Data, American Express and Royal Bank of Scotland, also provide processing or foreign exchange services to PayPal. If PayPal were to seek to expand the financial products that it offers, either alone or through a commercial alliance or an acquisition, these processing and foreign exchange relationships could be negatively affected, or these competitors and other processors could make it more difficult for PayPal to deliver its services.

GSI
Our GSI business segment has two main businesses: ecommerce services and interactive marketing services.
Ecommerce Services
The market for the development and operation of ecommerce services that enable companies to operate ecommerce businesses and integrate their ecommerce businesses into their multichannel retail offerings is continuously evolving and intensely competitive. In our ecommerce services business, we face competition from in-house ecommerce solutions, technology and service providers which supply one or more components of an ecommerce solution and other providers of integrated ecommerce solutions. Many of our prospective ecommerce services clients evaluate managing all or some aspects of an ecommerce operation with internal resources. As a result, we often compete with in-house solutions promoted and supported by internal information technology staffs, merchandising groups and other internal corporate constituencies as well as with technology and service providers that supply one or more components of an ecommerce solution that allow prospective clients to develop and operate their ecommerce business in-house. This group of providers may include the prospective client itself and companies that offer: Web platforms (e.g., Art

Technology Group, IBM and Microsoft); customer care/call center services (e.g., West Communications, Sykes Enterprises, and Convergys); fulfillment and logistics (e.g., PFS Web, Innotrac, DHL and UPS); and systems integrators (e.g., Accenture, EDS, Sapient, Infosys and IBM).

Low barriers to entry into the ecommerce services solutions market could increase the number of competitors our ecommerce services business may face. As we continue to expand internationally, our ecommerce services business will face increased competition from local companies which may have a greater understanding of, and focus on, the local customer. Our ecommerce services 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 merchandise on more favorable terms and devote more resources to technology development and marketing than our ecommerce services business.

We believe that we compete with ecommerce services competitors primarily on the basis of the following:

- offering the choice of a complete integrated solution or a component-based solution;
- promoting the client's brand and business, rather than our own;
- providing scale and operating leverage with an enterprise focus;
- establishing a commitment to invest in and enhance our platform; and
- aligning our financial interests with those of our clients.

Interactive Marketing Services

The market for interactive marketing services is continuously evolving and intensely competitive. In our interactive marketing services business, we face competition from other providers of interactive marketing services, other providers of traditional marketing services and in-house marketing departments, as our prospective interactive marketing services clients evaluate managing their marketing services with internal resources as well as through interactive marketing agencies. As a result, we often compete with in-house solutions promoted and supported by internal marketing departments as well as with service providers that supply one or more interactive marketing services. This group of providers may include the prospective client itself and companies that offer: email management and data aggregation (e.g., Experian, Harte-Hanks and Epsilon); online marketing and design services (digital marketing services agencies such as Omnicom Group, WPP Group, Publicis and the Interpublic Group of Companies); and other interactive marketing services (e.g., Google, LinkShare (owned by Rakuten), TradeDoubler, and ValueClick).

Low barriers to entry in the interactive marketing industry may increase the number of competitors our interactive marketing services business may face. International expansion of our interactive marketing services business will increase our exposure to competition with local companies who may have a competitive advantage because of their understanding of the needs of local businesses and consumers. Our interactive marketing services business has competitors with longer operating histories, larger customer bases, greater brand recognition or greater financial, marketing and other resources who are able to devote more resources to technology development and marketing.

We believe that we compete with interactive marketing services competitors primarily on the basis of the following:

- offering digital marketing solutions that are integrated with our ecommerce services platform, which we believe provides a more strategic, cohesive and optimized approach to growing ecommerce businesses; and
- providing services that utilize proprietary technology to promote stronger customer engagements designed to increase clients' return on investment.

We are subject to regulatory activity and antitrust litigation under competition laws.
We receive scrutiny from various government agencies under U.S. and foreign 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 U.S. or other countries, or otherwise constitute unfair competition. Contractual agreements with buyers, sellers, or other companies could give rise to regulatory action or antitrust litigation. Also, our unilateral business practices could give rise to regulatory action or antitrust litigation. Some regulators, particularly those outside of the U.S., may perceive our business to have so much market power that otherwise uncontroversial business

practices could be deemed anticompetitive. For example, in the U.S., we have been sued by a plaintiff representing a putative class of sellers who alleges that we have illegally monopolized a market for online auctions. See “Item 1 - Legal Proceedings” above. In Korea, the national competition authority has investigated allegations that we have engaged in illegal exclusive conduct and rendered a decision against us in October 2010. The case is on appeal through two administrative lawsuits, and a further investigation has now been concluded by the Seoul prosecutor's office, which has chosen not to bring any charges . The competition authorities in Germany and Australia have conducted investigations (now completed) of various actions taken by our businesses. Such claims and investigations, even if without foundation, typically are very expensive to defend, involve negative publicity and substantial diversion of management time and effort, and could result in significant judgments against us.

In several jurisdictions, we have taken actions designed to improve the security of transactions and the quality of the user experience on our websites. Beginning in June 2008, we have required users in the U.K. to offer PayPal as a payment alternative on most transactions on our localized U.K. website, and since October 2008, we have required sellers on eBay.com to accept one or more accepted payment methods (currently PayPal, credit or debit cards processed through Internet merchant accounts, ProPay, Moneybookers and Paymate) and no longer allow any forms of paper payment, including checks and money orders, to be listed by sellers in the U.S. for most categories of items. While these initiatives are intended to improve and make safer our users' buying experience and/or increase activity on our sites, certain users may be negatively affected by or react negatively to these changes, and may allege that we have (and are abusing) market power. We currently face inquiries from government regulators in various jurisdictions related to such actions. For example, both the Australian Competition and Consumer Commission and the Reserve Bank of Australia recently reviewed our policies requiring sellers to offer PayPal as a payment alternative on most transactions on our localized Australian website and precluding sellers from imposing a surcharge or any other fee for accepting PayPal or other payment methods. We may face similar inquiries from other government regulators in the future. Negative reactions to these changes by our users or government authorities could, among other things, force us to change our operating practices in ways that could harm our business, operating results and profitability.

Our business may be adversely affected by factors that cause our users to spend less time on our websites, including seasonal factors, national events and increased usage of other websites.

Anything that diverts our users from their customary level of usage of our websites could adversely affect our business. We would therefore be adversely affected by geopolitical events such as war, the threat of war, or terrorist activity, and natural disasters, such as hurricanes or earthquakes. Similarly, our results of operations historically have experienced seasonal fluctuations because many of our users reduce their activities on our websites with the onset of good weather during the summer months, and on and around national holidays. In particular, our GSI business is highly seasonal, with the fourth quarter holiday season accounting for a disproportionate amount of GSI's net revenues due to consumers increasing their purchases and businesses increasing their advertising to consumers during that period, and any factors that limit or dampen consumer spending during the fourth quarter holiday season could harm our GSI business. In addition, increased usage of social networking or other entertainment websites may decrease the amount of time users spend on our websites, which could adversely affect our financial results.

Our failure to cost-effectively manage certain aspects of our business could harm us.

We have expanded our headcount, facilities, and infrastructure in the U.S. and internationally, and anticipate that further expansion in certain areas will be required for some of our businesses. This expansion has placed, and we expect it will continue to place, a significant strain on our management, operational, and financial resources. The areas that are put under strain by our growth include the following:

- Customer Account Billing. Our revenues depend on prompt and accurate billing processes. Our failure to grow our transaction-processing capabilities to accommodate the increasing number of transactions that must be billed on our and our subsidiaries' websites would harm our business and our ability to collect revenue.
- Customer Service. We continue to focus on providing better and more efficient customer support to our users. We intend to provide an increased level of support (including an increasing amount of telephone support) in a cost-effective manner. If we are unable to provide customer support in a cost-effective manner, users of our websites may have negative experiences, current and future revenues could suffer, our costs may increase and our operating margins may decrease.

We must continue to effectively hire, train, and manage new employees. If our new hires perform poorly, if we are unsuccessful in hiring, training, managing, and integrating these new employees, or if we are unsuccessful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to improve our transaction processing, operational and financial systems, procedures, and controls. This is a special challenge as we acquire new operations with different systems. Our current and planned personnel, systems, procedures, and controls may not be adequate to support our future operations. Any capital investments that we may make will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by expense reductions in the short term.

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 have a negative effect on our business, operating results and financial condition, 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 the event that any taxing authority is successful in asserting tax positions that are contrary to our positions.

In addition, the economic downturn has reduced tax revenues for U.S. federal and state governments, and proposals to increase taxes from corporate entities are being considered at various levels of government. Among the options have been a range of proposals included in the tax and budget policies recommended to the U.S. Congress by the U.S. Department of the Treasury to modify the federal tax rules related to the imposition of U.S. federal corporate income taxes for companies operating in multiple U.S. and foreign tax jurisdictions. If such proposals are enacted into law, this could increase our effective tax rate. A number of U.S. states have likewise attempted to increase corporate tax revenues by taking an expansive view of corporate presence in order to attempt to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state. Many U.S. states are also altering their apportionment formulas in order to increase the amount of taxable income/loss attributable to their state from certain out-of-state businesses. Companies that operate over the Internet, such as eBay, are a target of some of these state efforts. If more states were successful in applying direct taxes to Internet companies that are not present in the state, this could increase of our effective tax rate.

Our integrated open commerce platforms, which are open to third-party developers, subject us to additional risks.

In 2009, we launched the PayPal Developer Platform to enable third party developers to access a wide variety of PayPal product and programming code specifications and to connect to select PayPal payment application programming interfaces (APIs). We also began providing a software tool kit for building mobile payments applications, and enabling third party developers to access certain APIs with respect to our Marketplaces platforms. In June 2011, we launched X.Commerce, our integrated open commerce platform initiative, which includes our eBay Developer Program and PayPal Developer Network. Assuming that we complete our pending acquisition of Magento, which provides open source ecommerce platforms, it will become part of X.Commerce. There can be no assurance that third-party developers will develop and maintain applications and services on our open commerce 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, which may be contravened by such third party applications. If this were to occur, we would be liable for the regulatory failure and our business could be adversely affected.

There are risks associated with our indebtedness.

At June 30, 2011, we had $2.5 billion in unsecured indebtedness outstanding, as well as $0.8 billion of available borrowing capacity under our existing unsecured revolving credit facility. We may incur additional indebtedness in the future, including under our revolving credit facility or through public or private offerings of debt securities. Our outstanding indebtedness and any additional indebtedness we incur may have important consequences, including, without limitation, the following:

- we will be required to use cash to pay the principal of and interest on our indebtedness;
- our indebtedness and leverage may increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- our ability to obtain additional financing for working capital, capital expenditures and for 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 operations, 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:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets;
- reduce or delay planned capital expenditures; or
- reduce or delay planned 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.

We depend on the continued growth of online commerce.

The business of selling goods over the Internet, particularly through online trading, is dynamic and relatively new. Concerns about fraud, privacy, and other problems may discourage additional consumers from adopting the Internet as a medium of commerce. In countries such as the U.S., Germany, Korea and the U.K., where our services and online commerce generally have been available for some time and the level of market penetration of our services is high, acquiring new users for our services may be more difficult and costly than it has been in the past. Moreover, the growth rates of Internet users is slowing in many countries where we have a significant presence. In order to expand our user base, we must appeal to and acquire consumers who historically have used traditional means of commerce to purchase goods and may prefer Internet analogues to such traditional retail means to our offerings, such as the retailer's own website. If these consumers prove to be less active than our earlier users due to lower levels of willingness to use the Internet for communications or commerce for any reason, including lack of access to high-speed communications equipment, congestion of traffic on the Internet, Internet outages or delays, disruptions or other damage to users' computers and we are unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, our business could be adversely impacted.

Our businesses depend on continued and unimpeded access to the Internet. Internet service providers may be able to block, degrade, or charge us or our users additional fees for our offerings.

Our customers rely on access to the Internet to use our products and services. In many cases that access is provided by companies that compete with at least some of our offerings, including incumbent telephone companies, cable companies, mobile communications companies, and large Internet service providers. Some of these providers have stated that they may take measures that could degrade, disrupt, or increase the cost of customers' use of our offerings by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. In addition, Internet service providers could attempt to charge us each time our customers use our offerings. Worldwide, a number of companies have announced plans to take such actions or are selling products designed to facilitate such actions. The United States Federal Communications Commission enacted rules on December 21, 2010 (Preserving the Open Internet Broadband Industry Practices [FCC-10-201]) establishing baseline restrictions that would regulate the ability of Internet access companies to interfere with Internet traffic transported over wired and wireless networks. These FCC rules are likely to be reviewed by the Federal courts in 2011. Pending greater regulatory and judicial clarity, interference with our offerings or higher charges for access to our offerings, whether paid by us or by our customers, could cause us to lose existing customers, impair our ability to attract new customers, and harm our revenue and growth.

Our business depends on the development and maintenance of the Internet infrastructure.

The success of our services will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security, as well as timely development of complementary products, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements, or problems caused by “viruses,” “worms,” malware and similar programs may harm the performance of the Internet. The backbone computers of the Internet have been the targets of such programs. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage generally as well as the level of usage of our services, which could adversely impact our business.

We may be unable to protect or enforce our own intellectual property rights adequately.

We regard the protection of our intellectual property, including our trademarks (particularly those covering the eBay and PayPal names), patents, copyrights, domain names, trade dress, and trade secrets as critical to our success. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. Effective intellectual property protection may not be available in every country in which our products and services are made available, and contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent misappropriation of our technology or deter independent development of similar technologies by others.

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

We are subject to the risks of owning real property.

We own real property, including land and buildings related to our operations. We have little experience in managing real property. Ownership of this property subjects us to risks, including:

- the possibility of environmental contamination and the costs associated with fixing any environmental problems;
- disruptions to our operations resulting from possible natural disasters, interruptions in utilities and similar events;
- adverse changes in the value of these properties, due to interest rate changes, changes in the commercial property markets, or other factors;
- the possible need for structural improvements in order to comply with zoning, seismic, disability law, or other requirements; and
- possible disputes with tenants, neighboring owners, or others.

Some anti-takeover provisions may affect the price of our common stock.

Our Board of Directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the preferences, rights and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock may be harmed by rights granted to the holders of any preferred stock that may be issued in the future. Some provisions of our certificate of incorporation and bylaws could have the effect of making it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock or take control of our board of directors. These include provisions that provide for a classified board of directors, prohibit stockholders from taking action by written consent and restrict the ability of stockholders to call special meetings. We are also subject to provisions of Delaware law that prohibit us from engaging in any business combination with any interested stockholder (as defined by Delaware law) for a period of three years from the date the person became an interested stockholder, unless certain conditions are met. This restriction could have the effect of delaying or preventing a change of control.

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

Stock repurchase activity during the three months ended June 30, 2011 was as follows:

Period	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 (1)
May 1, 2011 - May 31, 2011	5,120,000	$32.34	5,120,000	$1,421,937
June 1, 2011 - June 30, 2011	8,480,000	$30.54	8,480,000	$1,162,948
	13,600,000		13,600,000	

(1) In September 2010, our Board authorized a stock repurchase program that provides for the repurchase of up to $2.0 billion of our common stock, with no expiration from the date of authorization, for the purpose of offsetting the impact of dilution from our equity compensation programs. During the six months ended June 30, 2011, we repurchased approximately $780.8 million of our common stock under this stock repurchase program at an average price of $31.74 per share. As of June 30, 2011, approximately $1.2 billion remained available for further purchases of our common stock under this stock repurchase program.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

Exhibit 3.01	Amended and Restated Bylaws of eBay Inc. (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Commission on June 28, 2011 and incorporated herein by reference).
Exhibit 4.01	Form of 2.50% Convertible Senior Note due 2027 (filed as Exhibit 4.1 to GSI Commerce, Inc.'s Current Report on Form 8-K filed with the Commission on July 5, 2007 and incorporated herein by reference).
Exhibit 4.02	Indenture dated as of July 2, 2007 between GSI Commerce, Inc. and The Bank of New York, as trustee (filed as Exhibit 4.2 to GSI Commerce, Inc.'s Current Report on Form 8-K filed with the Commission on July 5, 2007 and incorporated herein by reference).
Exhibit 4.03	First Supplemental Indenture dated as of June 17, 2011 to the Indenture dated as of July 2, 2007 between GSI Commerce, Inc. and The Bank of New York Mellon, as trustee (filed as Exhibit 10.1 to GSI Commerce, Inc.'s Current Report on Form 8-K filed with the Commission on June 17, 2011 and incorporated herein by reference).
Exhibit 10.01+	GSI Commerce, Inc. 2010 Equity Incentive Plan (filed as Appendix A to GSI Commerce, Inc.'s Definitive Proxy Statement on Schedule 14A filed with the Commission on April 13, 2010 and incorporated herein by reference).
Exhibit 10.02+	Amendment to GSI Commerce, Inc. 2010 Equity Incentive Plan (filed as Exhibit 99.4 to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 8, 2011 and incorporated herein by reference).
Exhibit 10.03+	Form of Restricted Stock Unit Agreement (and Performance-Based Restricted Stock Unit Agreement) under GSI Commerce, Inc. 2010 Equity Incentive Plan, as amended.
Exhibit 10.04+	Letter Agreement dated July 7, 2011 between Christopher Saridakis and Registrant.
Exhibit 10.05+	Performance Award Agreement dated June 16, 2011, between Christopher Saridakis and GSI Commerce, Inc.
Exhibit 10.06	Credit Agreement, dated as of November 7, 2006, by and among Registrant, Bank of America, N.A., as Administrative Agent, and the other lenders named from time to time therein.
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.
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101.SCH*	XBRL Taxonomy Extension Schema Document
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101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

+ Indicates a management contract or compensatory plan or arrangement.

* XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of

any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

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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 Donahoe
John Donahoe
President and Chief Executive Officer

Date: July 21, 2011

Principal Financial Officer:

By: /s/ Robert H. Swan
Robert H. Swan
Senior Vice President and Chief Financial Officer

Date: July 21, 2011

Principal Accounting Officer:

By: /s/ Phillip P. DePaul
Phillip P. DePaul
Vice President, Chief Accounting Officer

Date: July 21, 2011

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