

EBAY INC
Form 10-K
February 17, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009.

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)

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Delaware
(State or other jurisdiction of

77-0430924
(I.R.S. Employer

incorporation or organization)

Identification Number)

2145 Hamilton Avenue

San Jose, California
(Address of principal

95125
(Zip Code)

executive offices)

Registrant's telephone number, including area code:

(408) 376-7400

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of exchange on which registered
Common stock	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$19,223,999,242 based on the closing sale price as reported on The Nasdaq Global Select Market.

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

Class	Outstanding as of February 12, 2010
Common Stock, \$0.001 par value per share	1,299,006,884 shares

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the registrant's Annual Meeting of Stockholders to be held on or about April 29, 2010.

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eBay Inc.

Form 10-K

For the Fiscal Year Ended December 31, 2009

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PART I

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business 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-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in Item 1A: Risk Factors of this Annual Report on Form 10-K as well as our 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.

ITEM 1: BUSINESS

Overview

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

Our purpose is to pioneer new communities around the world built on commerce, sustained by trust and inspired by opportunity. We provide online marketplaces for the sale of goods and services as well as other online commerce, or ecommerce, platforms and online payment solutions to a diverse community of individuals and businesses.

For most of fiscal 2009, we operated three primary business segments: Marketplaces, Payments and Communications. Our Marketplaces segment provides the infrastructure to enable global online commerce on a variety of platforms, including the eBay.com platform and our other online platforms, such as our online classifieds businesses, our secondary tickets marketplace (StubHub), our online shopping comparison website (Shopping.com) and our apartment listing service platform (Rent.com), as well as our fixed price media marketplace (Half.com). Our Payments segment is comprised of our online payment solutions PayPal and Bill Me Later. Our Communications segment, which consisted of Skype, enabled Internet communications between Skype users and provided low-cost connectivity to traditional fixed-line and mobile telephones. On November 19, 2009, we completed the sale of Skype to an investor group (please see further discussion under the heading Communications below). Following the completion of the sale of Skype, we operated and, continue to operate, two primary business segments: Marketplaces and Payments.

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, until the sale of Skype on November 19, 2009, fees charged to users to connect Skype s

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Internet communications products to traditional fixed-line and mobile telephones. Our marketing services revenues are derived principally from the sale of advertisements, revenue sharing arrangements, classifieds 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.

The following table sets forth, for the periods presented, the breakdown of our net revenues by type. For the year ended December 31, 2009, the revenues of our Communications segment reflect Skype's operations from January 1, 2009 to November 19, 2009.

	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2009	Percent Change from 2007 to 2008	Percent Change from 2008 to 2009
(In thousands, except percentage changes)					
Net Revenues by Type:					
Net transaction revenues					
Marketplaces	\$ 4,680,835	\$ 4,711,057	\$ 4,461,845	1%	(5)%
Payments	1,838,539	2,320,495	2,641,194	26%	14%
Communications	364,564	525,803	575,096	44%	9%
Total net transaction revenues	6,883,938	7,557,355	7,678,135	10%	2%
Marketing services and other revenues					
Marketplaces	683,056	875,694	849,169	28%	(3)%
Payments	88,077	83,174	154,751	(6)%	86%
Communications	17,258	25,038	45,307	45%	81%
Total marketing services and other revenues	788,391	983,906	1,049,227	25%	7%
Total net revenues	\$ 7,672,329	\$ 8,541,261	\$ 8,727,362	11%	2%

Marketplaces

Our Marketplaces segment is comprised of online commerce platforms that enable a global community of buyers and sellers to interact and trade with one another. Our goal is to create, maintain and expand the functionality, safety, ease-of-use and reliability of our online commerce platforms while supporting the growth and success of our community of users.

Marketplaces Value Proposition

We seek to attract buyers and sellers to our community by offering:

Buyers

Trust
Value
Selection
Convenience

Sellers

Access to broad global markets
Efficient marketing and distribution
Opportunity to increase sales

We believe our Marketplaces platforms make inefficient markets more efficient because:

our global community of users can more easily and inexpensively communicate, exchange information and complete transactions;

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our Marketplaces platforms make available to our users a wide variety and selection of goods; and

we bring buyers and sellers together in a more cost-effective manner than many traditional intermediaries and available alternatives.

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We seek to create a global platform that provides individuals and businesses of all types and sizes with access to broad markets. We have aggregated a significant number of buyers, sellers and items listed for sale, which in turn has resulted in a vibrant online commerce environment. Our buyers enjoy an extensive selection of goods and services. Key components of our community philosophy are maintaining honest and open marketplaces and treating individual users with respect. We seek to maintain the satisfaction and loyalty of our buyers and sellers by offering a variety of community and support features, such as announcement and bulletin boards, customer support boards and personal pages, as well as other topical and category-specific information exchanges.

Generally, we believe our Marketplaces platforms are more effective, relative to most available alternatives, at addressing markets of scarce new goods, new items that are no longer in-season, end-of-life products and used and vintage items. Our highest growth rates in gross merchandise volume (GMV) and sold items in recent periods have been in our fixed-price listing format, primarily for new items that are no longer in-season. We define GMV as the 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 Rent.com, Shopping.com and eBay's classified websites). We offer our buyers additional ways to get access to reduced-price products, including through our Daily Deal program where we offer multiple highly discounted deals from sellers every day.

The large size of our community of active users has contributed significantly to our historical success. We had approximately 90.1 million active users at the end of 2009, compared to approximately 87.7 million at the end of 2008. We define an active user as any user who has bid on, bought or listed an item during the preceding 12-month period.

Marketplaces Platforms Overview

Our Marketplaces platforms seek to bring buyers and sellers together through fully automated and easy-to-use online websites that are generally available throughout the world at any time. The platforms include software tools and services, some available at no charge and others for a fee, that are intended to allow buyers and sellers to trade with one another easily and efficiently. The Marketplaces platforms consist of our core online commerce platform, eBay.com and its localized counterparts, and adjacent platforms consisting of our classifieds websites, as well as StubHub, Shopping.com, Half.com, and Rent.com. Our Marketplaces platforms earn revenue from, as the case may be, final value, listing, feature and subscription fees paid by sellers, lead referral fees, transaction fees and advertising fees.

eBay.com Platform

Our Marketplaces core platform, eBay.com, includes our fixed-price format and our traditional auction-style format and has localized websites in 24 countries, as well as a global presence with our partnerships and investments in an additional 15 markets. In 2009, our fixed-price listing format accounted for approximately 53% of our GMV, and our auction-style format accounted for the remaining 47% of GMV.

Fixed-Price Listing Format

Our fixed-price format allows buyers and sellers to close transactions in the way most shopping occurs: at a pre-determined price. In this format, sellers can indicate they have multiple items available, including variations of certain items in applicable categories, such as sizes and colors for clothing, shoes and accessories. Also, sellers are able to signal that they would be willing to close the transaction at a lower price than advertised through the best offer feature. Our Half.com subsidiary also provides a fixed-price, person-to-person online commerce platform that allows people to buy and sell new and previously owned books, movies, music and games at discounted prices.

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In addition, eBay Stores enables sellers to exhibit all of their listings in one place on our eBay platform and to describe their respective businesses through customized pages. eBay Stores provides sellers with tools to build, manage, promote and track their businesses. In some countries, including the U.S., Store Inventory Format listings allow sellers to list items for a minimum 30-day listing period at a lower listing fee and higher final value fee than regular auction-style and fixed-price listings. In other countries, including Germany and the U.K., all fixed price listings are included in the core search results.

Auction-Style Listing Format

Our auction-style format allows a seller to select a minimum price for opening bids, with the option to set a reserve price for the item, which is the minimum price at which the seller is willing to sell the item.

Key Services for Buyers and Sellers

We have developed a number of features on our platforms in the areas of Trust and Safety (including our Feedback Forum, Safe Harbor Program and Verified Rights Owner Program), Customer Support and Value-Added Tools and Services, as well as Loyalty Programs (for both buyers and sellers). These features are designed to make users more comfortable dealing with unknown trading partners and completing commercial transactions on the Internet, as well as rewarding our best buyers and sellers for their loyalty.

Feedback Forum: Our Feedback Forum encourages users to provide feedback ratings and comments on other users with whom they trade. Users profiles, which include these feedback ratings and comments, can be viewed by any of our other users. Every registered user has a feedback profile that may contain compliments, criticisms and/or other comments by users who have conducted business with that user. The Feedback Forum requires feedback to be related to specific transactions and provides an easy tool for users to match specific transactions with the user names of their trading partners. This information is recorded in a profile that includes a feedback rating for the user, with feedback sorted according to whether the feedback has been provided over the past month, six months or twelve months. Users who develop positive reputations have color-coded star symbols displayed next to their user names to indicate the number of positive feedback ratings they have received. In addition to leaving an overall feedback rating (positive, neutral or negative) for a seller, buyers also can leave anonymous Detailed Seller Ratings (DSRs) that cannot be viewed by the seller in four areas: item as described, communication, shipping time and shipping and handling charges. The Feedback Forum has several automated features designed to detect and prevent certain forms of abuse, such as a user leaving positive feedback about himself or herself through multiple accounts. As a customer-focused company, we no longer allow sellers to leave negative feedback about buyers and supply sellers with tools that give them the ability to enhance the buyer experience.

SafeHarbor Program: We also offer the SafeHarbor program, which provides guidelines for trading and user dispute resolution. Our SafeHarbor staff investigates users complaints of possible misuse of eBay platforms and takes appropriate action, including issuing warnings to users, ending and removing listings, or suspending users from bidding on or listing items for sale.

Verified Rights Owner (VeRO) Program: Our VeRO Program lets intellectual property rights owners request the removal of listings that offer items or contain materials that they claim infringe on their rights. This program helps to protect community members from purchasing items that may be counterfeit or otherwise unauthorized.

Customer Support: We devote significant resources to providing personalized, accurate and timely support services to our community of users. Buyers and sellers can contact us through a variety of means, including email, online text chat and telephone. We continue to focus our resources on improving our accessibility, increasing our capacity, expanding our category-specific support, extending our online self-help features and improving our systems and processes to allow us to provide more efficient and effective support. In addition, top eBay sellers who qualify for our PowerSeller program receive prioritized customer support.

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Value-Added Tools and Services: eBay users have access to a variety of pre-trade and post-trade tools and services to enhance their user experience and to make trading faster, easier and safer for them. Pre-trade tools and services are intended to simplify the listing process.

Post-trade tools and services are designed to make transactions easier and more convenient to complete. These tools and services may not be available in all international markets.

These tools and services include:

Turbo Lister, eBay Blackthorne, ProStores, Selling Manager and Selling Manager Pro, each of which helps to automate the selling process;

Shipping Calculator, which makes it easier for buyers and sellers to calculate shipping costs;

Shipping Labels, which allows sellers to print certain postage and labels;

eBay To Go, which allows users to embed item listings in their own Internet websites; and

PayPal, which facilitates the online exchange of funds.

We currently provide these services directly or through contractual arrangements with third parties.

PowerSeller program: PowerSellers are eBay's top sellers who have consistently sustained a high volume of monthly sales and who have a high level of positive feedback and consistently high DSRs. Members of the PowerSeller program get a range of special benefits, including pricing discounts, prioritized customer support, promotional offers, eBay promotional merchandise, advanced selling education, opportunities to participate in research and other special rewards.

eBay Top-rated Seller program: In 2009, we introduced our eBay Top-rated Seller (eTRS) program in key countries. PowerSellers who qualify for the eTRS program receive consistently high customer satisfaction ratings, as measured by consistently high DSRs on shipping, service and item descriptions, as well as meeting certain volume criteria. Members of the eTRS program qualify for the same benefits as the PowerSeller program, as well as a prominent badge in search results, higher discounts, and increased search exposure.

Top Buyer program: Our top buyers benefit from having a special phone number to call if they have an unsatisfactory user experience in connection with a transaction on our websites. From time to time, we also offer special coupon initiatives to top buyers.

Coupons and Buyer Rewards: Coupons were given to targeted buyers throughout 2008 and 2009 to drive our GMV growth. Beginning in 2009, we also began offering, on a limited basis, a buyer rewards program in the U.S. to incentivize our buyers to remain loyal by offering eBay Bucks certificates on qualifying eBay.com purchases, which can be applied towards subsequent purchases on eBay.com.

eBay Buyer Protection: eBay Buyer Protection covers items purchased on eBay.com in the U.S. and the U.K. through an eligible payment method and protects most buyers with respect to items that are not received or not as described in the listing. Some purchases are not covered, including prohibited or restricted items; most vehicles; real estate; and purchases made on classified listings on eBay.com. eBay Buyer Protection provides coverage for the purchase price of the item, plus original shipping costs, for a limited time period from the date of payment, and includes a new, streamlined customer service process.

Best Match: Buyers on eBay.com now see Best Match as the default search result. The Best Match search algorithm determines which listings appear at the top of searches based on, among other factors, relevance, detailed seller ratings and shipping and handling charges. Best Match is designed to enable buyers

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to find the items they are looking for more quickly and easily, incentivize sellers to provide better deals, free or inexpensive shipping and excellent customer service, and increase the frequency of positive buying experiences from sellers with high rates of buyer satisfaction.

Adjacent Marketplaces Platforms and Services

StubHub

StubHub is a leading U.S. ticket marketplace that enables users to buy and sell tickets to a large selection of sporting, concert, theater and other live entertainment events. StubHub provides a marketplace dedicated solely to tickets and is designed to enable users to buy or sell their tickets in a secure, convenient and highly reliable environment. Buyers and sellers pay transaction fees to StubHub when tickets are bought and sold.

Classifieds Websites

Our classifieds websites are available in over 1,000 cities around the world and are primarily designed to help people trade on a local level. Our classifieds websites include Den Blå Avis, BilBasen, eBay Classifieds (eBay Anuncios, eBay Kleinanzeigen and eBay Annunci), Gumtree, Kijiji, LoQUo, Marktplaats.nl and mobile.de. In addition, we have a noncontrolling equity investment in craigslist, Inc., which operates the craigslist classifieds websites around the world. Our classified websites generate revenue primarily through advertising.

Online Advertising and Other Services

We work with strategic partners to provide a variety of services designed to enable our buyers to find great deals and connect with sellers. We also offer our own advertising service that enables third parties to directly purchase text advertising promoting their eBay listings and eBay stores.

Shopping.com

Shopping.com is a leading comparison shopping destination featuring products from thousands of merchants across the Internet. Shopping.com offers one of the largest product catalogs on the Internet searchable by thousands of attributes along with consumer product reviews through Epinions.com, which helps users make informed buying decisions. Shopping.com's revenue is derived primarily from retailers who pay a fee for users directed to their sites by Shopping.com. In addition, Shopping.com generates revenue through advertising.

Rent.com

Rent.com is a leading U.S. listing website in the rental housing industry. The website is designed to bring apartment seekers and landlords together in an efficient manner. Landlords pay a fee to Rent.com for renters who indicate that they have found their apartments through Rent.com.

Half.com

Half.com is a fixed-price marketplace for new and used books, textbooks, music, movies, video games, and video game consoles.

Marketplaces Growth Strategy

eBay strives to offer a wide variety of inventory ranging from new in-season through end-of-life products from different types of sellers in a broad variety of categories with a favorable buyer experience and a choice between fixed price and auction formats, all in one place.

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Our growth strategy is focused on reinvesting in our customers by improving the buyer experience and seller economics by enhancing our products and services, improving trust and safety and customer support, extending our product offerings into new formats, categories and geographies, and implementing innovative pricing and buyer retention strategies. Over the course of 2009, we continued to make significant changes that were designed to improve the user experience on all of our sites, including changes to pricing and shipping policies. In 2009, we also made significant steps to create a faster and more streamlined search experience with a greater focus on relevance when sorting search results. Pricing changes reduced the upfront cost of listing fixed-price items on eBay so that fees are now based more on the successful sale of items, for both smaller and larger sellers. We encourage sellers to offer free or inexpensive shipping to our buyers by promoting their listings through our Best Match search algorithm.

Another element of our growth strategy is to build our adjacent Marketplaces businesses, such as our classified platforms and StubHub, which offer new formats and monetization models, as well as opportunities for growth beyond our core businesses. In 2009, we started implementing in various European markets new ways to integrate the classifieds listing format on our core sites to offer our buyers and sellers an additional way to get connected and conduct ecommerce.

We will continue to work toward our goal of creating the world's leading ecommerce franchise by investing in our core Marketplaces segment and continuing to build our adjacent Marketplaces businesses. We believe that, if successful, we will increase the number of items sold on our sites.

Payments

Our payments segment is comprised of two online payment brands PayPal (which enables individuals and businesses to securely, easily and quickly send and receive payments online in approximately 190 markets worldwide) and Bill Me Later (which we acquired in November 2008, and which enables online U.S. merchants to offer, and U.S. consumers to obtain, through Bill Me Later's banking relationships, transactional credit at the point of sale). Our payment networks build upon the existing financial infrastructure to create a global, real-time payment solution.

Payments Value Proposition

We believe our payment solutions make online commerce more efficient compared to traditional payment alternatives such as checks, money orders and credit cards via merchant accounts. Some of these traditional payment alternatives present various obstacles to the online commerce experience, including lengthy processing time, inconvenience and higher costs. Providing a more efficient and effective payment alternative for users is essential to creating a faster, easier and safer online commerce experience. Our online payment solutions allow customers to send and receive funds securely, easily and quickly and facilitate transactional credit for merchants and consumers.

Buyer Value Proposition

PayPal enables buyers to pay merchants without sharing sensitive financial information (such as credit card numbers) or providing their name and address information. To make payments using PayPal, buyers need to disclose only their email addresses to recipients. Buyers also benefit from PayPal's Buyer Protection Program, which, subject to specified limitations, reimburses buyers using PayPal with respect to qualified purchases. When using Bill Me Later's banking relationships to obtain transactional credit, buyers need to provide only their name, address, birth date and the last four digits of their social security number. After Bill Me Later repurchases the receivables related to these transactions, it also offers U.S. buyers an opportunity to defer payments; under some promotional arrangements with select merchants, interest on such payments can be deferred for as long as three to six months. We believe that many buyers wary of disclosing financial information online find the limited amount of information they are required to provide using PayPal and Bill Me Later attractive.

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Seller Value Proposition

PayPal offers online merchants an all-in-one payment processing solution that is less expensive than most credit card merchant accounts, offers industry-leading fraud prevention and streamlines the checkout experience for users of the approximately 81 million active registered accounts in approximately 190 markets as of December 31, 2009. Active registered accounts are defined as registered accounts that successfully sent or received at least one payment or payment reversal through the PayPal system (or Bill Me Later accounts that are currently able to transact and that have received a statement) within the last 12 months. Users of active registered accounts may engage in cross-border shopping, which may help merchants to increase sales volume. In addition, PayPal offers a payment gateway service that provides merchants who already have a credit card merchant account with a secure connection from their online store to their internet merchant account and processing network.

A merchant can typically open a PayPal account and begin accepting credit card payments within a few minutes. Most merchants are approved instantly for a PayPal account and do not need to provide a personal guarantee, acquire specialized hardware, prepare an application, or contact a payment gateway. PayPal can reduce or eliminate the need for merchants to receive and store sensitive customer financial information. Furthermore, PayPal charges lower transaction fees than most U.S. merchant accounts, and charges no setup fees and few or no recurring monthly fees.

The account-based nature of PayPal's network helps us to better detect and prevent fraud when funds enter, flow through and exit the PayPal network. Sellers can also reduce the risk of transaction losses resulting from unauthorized credit card use and fraudulent chargebacks if they comply with PayPal's Seller Protection Policy.

U.S. merchants offering Bill Me Later provide buyers with various transactional credit arrangements at the point of sale through Bill Me Later's banking relationships. Beginning in the fall of 2009, Bill Me Later was made available as a funding source to approved U.S. PayPal customers, which may help to increase our Payments sales volume.

PayPal Overview

Joining PayPal

PayPal offers three types of accounts: Personal, Business and Premier. A new account holder typically opens an account to send money for an eBay purchase or a purchase on another website, a payment for services rendered, or a payment to an individual in lieu of cash or check. Allowing new account holders to join the network when they make or receive payments encourages PayPal's natural, user-driven growth. PayPal's account sign-up process asks each new account holder to provide PayPal with his or her name, street address, phone number and email address. The account holder's email address serves as the unique account identifier. PayPal also offers certain customers who sell on their own websites the ability to accept credit card payments from buyers without requiring the buyer to open a PayPal account.

PayPal Transaction Overview

Buyers make payments at the PayPal website, at the eBay.com website, or at the websites of merchants that have integrated PayPal's Website Payments or Express Checkout features. To make a payment at PayPal's website, a buyer logs in to his or her account and enters the recipient's email address and the amount of the payment. To make a payment through eBay.com or merchant websites, a buyer selects an item for purchase, chooses PayPal for payment and enters his or her email address and password to authorize the payment. The buyer chooses whether PayPal debits the money from the buyer's PayPal balance, credit card, Bill Me Later account (in the U.S.), or bank account and the payment is then credited to the recipient's PayPal balance. For some bank account payments (which we call eCheck payments), the transaction is held until the funds have cleared the sender's bank, which typically takes three to five business days. Once the payment is completed, the recipient can make payments to others or withdraw his or her funds at any time via check (in the U.S. and five

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other countries), electronic funds transfer, a PayPal-branded debit card (available only to U.S. users), a prepaid card (in the U.K. and Italy), or through a credit to a recipient's credit card account (in limited markets).

PayPal earns revenues in several ways:

PayPal earns transaction fees when a Business or Premier account receives a payment or, in certain qualified transactions, when a sender elects to pay the fee in lieu of the recipient;

PayPal earns a foreign exchange fee when an account holder converts a balance from one currency to another;

PayPal earns fees from merchants who utilize PayPal's Pro direct payment card processing services or Payflow gateway processing services;

PayPal earns fees when a user receives payments from outside the user's country of residence;

PayPal may earn fees when a user withdraws money to certain bank accounts, depending on the amount of the withdrawal;

PayPal earns a return on certain customer balances; and

Ancillary revenues are earned from a suite of financial products.

PayPal incurs funding costs on payments at varying levels depending on the source of the payment. Funding costs associated with credit card and debit card funded payments are significantly higher than bank account, Bill Me Later, or balance-funded payments. U.S. account holders who choose to maintain PayPal balances in U.S. dollars have the ability to sweep balances into the PayPal Money Market Fund. The PayPal Money Market Fund, which is invested in a portfolio managed by BlackRock Fund Advisors, bore a current compound annual yield of 0.08% as of December 30, 2009.

Verification of Account Holders

To fund payments from their bank accounts in the U.S., account holders must first become verified by PayPal. The primary method for verification is our patented Random Deposit technique. Under this technique, PayPal makes two deposits ranging from 1 cent to 99 cents to the account holder's bank account. To verify ownership of the account, the account holder then enters the two amounts as a four-digit code at the PayPal website. We also automatically verify select accounts when certain other proprietary conditions have been met. In addition to allowing funding through bank accounts, verification also removes some spending limits on account holders' accounts and gives them reputational advantages when transacting with other members of the PayPal community. Outside of the U.S., similar verification processes are used for credit card accounts and in the limited number of countries where PayPal offers bank funding. In certain cases specific to local markets, bank funded transactions are permitted up to set limits before additional verification is required.

Withdrawing Money

Each account holder in the U.S. and in 64 other countries may withdraw money from his or her PayPal account through an electronic fund transfer to his or her U.S. bank account or, in approximately 44 of those countries, to their local bank account. In the U.S. and five other countries, users can withdraw their funds by a mailed check. Withdrawals by electronic transfer in the U.S. may take three to five business days to arrive in the account holder's bank account, depending on the bank, and may take longer in other countries. Mailed checks may take one to two weeks to arrive. Qualifying PayPal business users in the U.S. can receive a PayPal ATM/debit card, which provides these users with instant access to their PayPal account balances. ATM/debit cardholders can withdraw cash from any ATM connected to the Cirrus or Maestro networks and can make purchases at any merchant accepting MasterCard. PayPal offers customers the opportunity to apply for a prepaid card in the U.K.

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and Italy, which can be linked to a customer's PayPal account to add or withdraw funds. In some markets, customers can also access their money by generating a credit to their credit card account.

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PayPal's Trust and Safety Programs

We have developed a number of PayPal trust and safety programs, including PayPal's Seller Protection and Buyer Protection Programs. These programs provide additional protection to certain account holders who pay or receive payment for their transactions through PayPal on eBay and off eBay as well as in certain geographies. PayPal's Seller Protection Program covers sellers who follow specific shipping and handling practices against claims that a transaction was not authorized by the buyer or that the item was not received. PayPal's Buyer Protection Program reimburses the buyer for qualified purchases off eBay.com in certain key geographies if the buyer does not receive the item. In some eBay localized markets, protection for buyers is limited to a maximum amount per transaction. In addition, our Risk Management and Fraud Investigation Teams focus on identifying and preventing fraud before it occurs, detecting fraud in process, mitigating loss if fraud does occur and delivering information to law enforcement around the world to better combat online fraud.

Bill Me Later Transactional Payment Solution

Bill Me Later offers U.S. online consumers a way to obtain instant credit at the point of transaction through Bill Me Later's relationship with CIT Bank. Bill Me Later is not a chartered financial institution, and relies on CIT Bank to extend credit as the lender to Bill Me Later customers utilizing the Bill Me Later service. When a consumer makes a purchase using the Bill Me Later service, CIT Bank funds the consumer loan at the point of sale and advances funds to the merchant. Bill Me Later subsequently purchases the receivable related to the consumer loan extended by CIT Bank. Bill Me Later accounts are most commonly opened on a U.S. merchant site offering Bill Me Later as a payment method, but can also be opened via a qualified PayPal account or at the Bill Me Later website. A buyer enters his or her birth date and the last four digits of his or her social security number and, subject to credit approval by CIT Bank, Bill Me Later opens an account for the buyer. This account can be used on any other U.S. merchant site offering the Bill Me Later payment option or as a funding source in a qualified PayPal account on certain merchants in the U.S. who accept PayPal. Once established, customers can then manage their accounts online with access to their transaction history and monthly statements and can elect to establish recurring electronic monthly payments.

Bill Me Later earns revenues in several ways:

Bill Me Later earns interest on the outstanding customer balances;

Bill Me Later charges fees for late payments; and

Bill Me Later earns fees from merchants who use the Bill Me Later service.

Bill Me Later's alternative payment solution is designed to help retailers with an online presence attract, satisfy and retain customers at the point of sale. Through this offering, we believe that customers can make successful real-time retailing decisions, and that online retailers of all sizes can develop an effective payments strategy designed to increase sales and satisfaction by providing consumers with secure, convenient and flexible payment choices.

Payments Growth Strategy

We seek to become the online payment solution of choice around the world through our focus on simplifying and improving the customer experience, striving to be the most secure method of payment on the Internet, enhancing our product offering for our merchants and utilizing multiple sales channels. To establish PayPal and Bill Me Later as the online payment solutions of choice, we intend to continue focusing on increased user adoption of PayPal on our Marketplaces platforms, continued expansion of PayPal's Merchant Services business and our financial products business, expanding the offerings of Bill Me Later, including as a funding source for PayPal accounts and increasing adoption of Bill Me Later on merchant sites, including the eBay Marketplace.

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PayPal Merchant Services

Our Merchant Services business offers a differentiated product solution for different categories of merchants, while providing a cost-effective and secure payment solution across all categories. We intend to continue to market our global payments solution in geographies where we are already present and to add geographies to spur our growth as a payment solution off of eBay.com for sole proprietors and small, medium and large businesses.

Marketplaces

PayPal's services are integrated into the checkout flow of the eBay.com platform in our key markets, including the U.S., Germany, the U.K. and Canada. In 2009, eBay.com generated approximately \$57.2 billion in GMV. PayPal, in turn, generated approximately \$31.2 billion of net total payment volume from eBay.com transactions, which represented approximately 44% of PayPal's net total payment volume during 2009. Net total payment volume is the total dollar volume of payments, net of payment reversals, successfully completed through our Payments network or on Bill Me Later accounts, excluding PayPal's payment gateway business.

We intend to continue to increase PayPal's penetration of GMV on the eBay.com platform globally by continuing to integrate PayPal with eBay listings and new formats, including our adjacent Marketplaces businesses, focusing on buyer and seller protection programs and adding product features and innovations that we believe are important to the Marketplaces community. We believe that our expansion into an increased number of international markets and currencies will continue to make cross-border transactions easier and more efficient, benefiting both our Marketplaces and Payments segments.

Bill Me Later

We continue to invest in product development designed to capitalize on synergies between Bill Me Later and other eBay brands. In 2009, we introduced Bill Me Later as a funding source within a PayPal account for certain U.S. customers and we also began to offer Bill Me Later as a payment method on eBay.com in the U.S. In 2010, we intend to further expand these offerings. In addition, we have combined our PayPal and Bill Me Later merchant sales teams and have begun selling both the PayPal and Bill Me Later solutions in a coordinated effort to offer merchants greater efficiency in product integration.

PayPal Developer Platform

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 believe this will spur broader development and further expand the use of PayPal payments solutions on the Internet as well as other platforms, such as mobile devices.

Payments Financial Products

We will continue to identify transactions and markets that we believe are not served adequately by existing payment systems and seek to develop product features designed to improve upon those legacy systems. In addition, we intend to expand the breadth of products and services available to our account holders and to continue offering financial products such as the following:

PayPal ATM/Debit Card/Prepaid card, which enables business users to withdraw funds from their PayPal accounts at ATMs, pay for offline purchases with funds from their PayPal account, and in the U.S. qualify to receive cash back on eligible purchases;

PayPal Plus Credit Card and eBay MasterCard issued by GE Money Bank, which allow users to earn rewards on purchases made offline or using PayPal, as well as a PayPal Credit Card offered to U.K. users through Santander;

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PayPal Student Account, which enables parents to electronically transfer money to an account their children can access for use online and offline via the Student Card; and

PayPal Money Market Fund, which allows participants to earn a yield on the funds in their PayPal account.

Communications

Our Communications segment was comprised of Skype. Skype is a global Internet communications company that offers a way for people in almost every country around the world to stay in touch over the Internet through free voice and video calls, sending instant messages, SMS (text messaging) or files, and by making low-cost calls to landline and mobile numbers. Skype primarily generated revenue through fees charged to users to connect Skype's Internet communications products to traditional fixed-line and mobile telephones (which we refer to as SkypeOut minutes).

On November 19, 2009, we completed the sale of Skype to an entity (Buyer) owned and organized by an investor group. We received approximately \$1.9 billion in cash, a subordinated note issued by a subsidiary of the Buyer in the principal amount of \$125.0 million and an equity stake of approximately 30% of the outstanding capital stock of the Buyer. Skype was consolidated with our results of operations through November 19, 2009 (the date that the sale of Skype was completed), and after that date, is no longer consolidated with our results of operations. Our noncontrolling ownership interest in the Buyer is accounted for as an equity investment. For additional details related to the sale of Skype, please see Note 4 Sale of Skype to the consolidated financial statements included in this report.

Other Items

Employees

As of December 31, 2009, eBay Inc. and its subsidiaries employed approximately 16,400 people (including temporary employees), approximately 9,700 of whom were located in the U.S.

Competition

We encounter vigorous competition in our businesses from numerous sources. For our Marketplaces segment, our users can find, buy, sell and pay for similar items through a variety of competing channels. These include, but are not limited to, online and offline retailers, distributors, liquidators, import and export companies, online and offline auctioneers, catalog and mail-order companies, classifieds, directories, search engines, products of search engines, virtually all online and offline commerce participants (consumer-to-consumer, business-to-consumer and business-to-business), online and offline shopping channels and networks. As our product offerings continue to broaden into new categories of items and new commerce formats, we expect to face additional competition from other online and offline channels for those new offerings. We compete on the basis of price, product selection, and services. Our growth rates in our most mature markets have significantly slowed and we are losing market share in some segments. For our Payments segment, our users may choose to pay through a variety of alternative means, including other online payment services, offline payment methods such as cash, check or money order, and traditional online or offline credit card merchant accounts. To compete effectively, we may need to expend significant resources in technology and marketing. These efforts may be expensive and could reduce our margins and have a materially adverse effect on our business, financial position, operating results and cash flows and reduce the trading price of our stock. Despite our efforts to preserve and expand the size and diversity of our us