

EBAY INC
Form 10-Q
October 20, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 001-37713

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

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0430924
(I.R.S. Employer
Identification Number)

2065 Hamilton Avenue
San Jose, California
(Address of principal executive offices) (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

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

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

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

As of October 18, 2016, there were 1,117,926,440 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

	September 30, 2016	December 31, 2015
	(In millions, except par value) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,753	\$ 1,832
Short-term investments	6,292	4,299
Accounts receivable, net	626	619
Other current assets	1,112	1,154
Total current assets	9,783	7,904
Long-term investments	3,921	3,391
Property and equipment, net	1,526	1,554
Goodwill	4,727	4,451
Intangible assets, net	117	90
Other assets	428	365
Total assets	\$ 20,502	\$ 17,755
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 1,449	\$ —
Accounts payable	278	349
Accrued expenses and other current liabilities	1,813	1,736
Deferred revenue	116	106
Income taxes payable	107	72
Total current liabilities	3,763	2,263
Deferred and other tax liabilities, net	2,268	2,092
Long-term debt	7,582	6,749
Other liabilities	70	75
Total liabilities	13,683	11,179
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value; 3,580 shares authorized; 1,117 and 1,184 shares outstanding	2	2
Additional paid-in capital	14,782	14,538
Treasury stock at cost, 523 and 443 shares	(18,205) (16,203
Retained earnings	9,036	7,713
Accumulated other comprehensive income	1,204	526
Total stockholders' equity	6,819	6,576
Total liabilities and stockholders' equity	\$ 20,502	\$ 17,755

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(In millions, except per share amounts) (Unaudited)			
Net revenues	\$2,217	\$2,099	\$6,584	\$6,270
Cost of net revenues	498	433	1,468	1,278
Gross profit	1,719	1,666	5,116	4,992
Operating expenses:				
Sales and marketing	600	565	1,760	1,672
Product development	288	241	822	694
General and administrative	224	207	651	862
Provision for transaction losses	56	65	172	199
Amortization of acquired intangible assets	9	10	24	30
Total operating expenses	1,177	1,088	3,429	3,457
Income from operations	542	578	1,687	1,535
Interest and other, net	(9)	87	(40)	221
Income from continuing operations before income taxes	533	665	1,647	1,756
Provision for income taxes	(115)	(120)	(310)	(332)
Income from continuing operations	\$418	\$545	\$1,337	\$1,424
Loss from discontinued operations, net of income taxes	(5)	(6)	(7)	(176)
Net income	\$413	\$539	\$1,330	\$1,248
Income (loss) per share - basic:				
Continuing operations	\$0.37	\$0.45	\$1.17	\$1.17
Discontinued operations	—	—	(0.01)	(0.14)
Net income per share - basic	\$0.37	\$0.45	\$1.16	\$1.03
Income (loss) per share - diluted:				
Continuing operations	\$0.36	\$0.45	\$1.16	\$1.16
Discontinued operations	—	—	(0.01)	(0.14)
Net income per share - diluted	\$0.36	\$0.45	\$1.15	\$1.02
Weighted-average shares:				
Basic	1,126	1,210	1,143	1,214
Diluted	1,139	1,223	1,153	1,226

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In millions)			
	(Unaudited)			
Net income	\$413	\$539	\$1,330	\$1,248
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation gain (loss)	150	(182)	217	(426)
Unrealized gains (losses) on investments, net	353	(442)	657	(320)
Tax benefit (expense) on unrealized gains (losses) on investments, net	(128)	155	(229)	111
Unrealized gains (losses) on hedging activities, net	—	(19)	33	(82)
Tax benefit (expense) on unrealized gains (losses) on hedging activities, net	—	1	—	1
Other comprehensive income (loss), net of tax	375	(487)	678	(716)
Comprehensive income	\$788	\$52	\$2,008	\$532

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

eBay Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2016 2015 (In millions) (Unaudited)	
Cash flows from operating activities:		
Net income	\$1,330	\$1,248
Loss from discontinued operations, net of income taxes	7	176
Adjustments:		
Provision for transaction losses	172	199
Depreciation and amortization	506	516
Stock-based compensation	306	301
Gain on sale of investments	25	(212)
Changes in assets and liabilities, and other, net of acquisition effects	(139)	(477)
Net cash provided by continuing operating activities	2,207	1,751
Net cash provided by (used in) discontinued operating activities	(1)	1,242
Net cash provided by operating activities	2,206	2,993
Cash flows from investing activities:		
Purchases of property and equipment	(490)	(539)
Purchases of investments	(7,782)	(4,452)
Maturities and sales of investments	5,929	5,579
Acquisitions, net of cash acquired	(201)	(24)
Other	(24)	(15)
Net cash provided by (used in) continuing investing activities	(2,568)	549
Net cash used in discontinued investing activities	—	(3,837)
Net cash used in investing activities	(2,568)	(3,288)
Cash flows from financing activities:		
Proceeds from issuance of common stock	67	173
Repurchases of common stock	(2,002)	(1,512)
Excess tax benefits from stock-based compensation	9	72
Tax withholdings related to net share settlements of restricted stock units and awards	(96)	(226)
Proceeds from issuance of long-term debt, net	2,216	—
Repayment of debt	(17)	(250)
Other	5	10
Net cash provided by (used in) continuing financing activities	182	(1,733)
Net cash used in discontinued financing activities	—	(1,599)
Net cash provided by (used in) financing activities	182	(3,332)
Effect of exchange rate changes on cash and cash equivalents	101	(286)
Net increase (decrease) in cash and cash equivalents	(79)	(3,913)
Cash and cash equivalents at beginning of period	1,832	6,328
Cash and cash equivalents at end of period	\$1,753	\$2,415
Less: Cash and cash equivalents of held for sale	—	28
Cash and cash equivalents of continuing operations at end of period	\$1,753	\$2,387
Supplemental cash flow disclosures:		
Cash paid for interest	\$199	\$161
Cash paid for income taxes	\$117	\$240

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

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eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 — The Company and Summary of Significant Accounting Policies

The Company

eBay Inc. is a global commerce leader, including our Marketplace, StubHub and Classifieds platforms. Our Marketplace platforms include our online marketplace located at www.ebay.com, its localized counterparts and the eBay mobile apps. Our StubHub platforms include our online ticket platform located at www.stubhub.com, the StubHub mobile apps and Ticketbis. Our Classifieds platforms include a collection of brands such as Mobile.de, Kijiji, Gumtree, Marktplaats, eBay Classifieds and others.

When we refer to “we,” “our,” “us” or “eBay” in this document, we mean the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of our consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires.

Use of Estimates

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

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