EBAY INC
Form S-4/A
August 28, 2002

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As filed with the Securities and Exchange Commission on August 28, 2002

Registration No. 333-97727

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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eBay Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	7389	77-0430924
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

2145 Hamilton Avenue
San Jose, California 95125
(408) 376-7400
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Michael R. Jacobson
Senior Vice President, Legal Affairs
General Counsel & Secretary
eBay Inc.
2145 Hamilton Avenue
San Jose, California 95125
(408) 376-7400
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, Of Agent for Service)

Copies to:

Alison S. Ressler	John D. Muller	Richard W. Porter, P.C.
Sullivan & Cromwell	PayPal, Inc.	Kirkland & Ellis
1870 Embarcadero Road	303 Bryant Street	200 East Randolph Drive
Palo Alto, California 94303	Mountain View, California 94041	Chicago, Illinois 60601
(650) 461-5600	(650) 864-8000	(312) 861-2000

Approximate date of commencement of proposed sale to public: As soon as possible after this Registration Statement is declared effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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303 Bryant Street

Mountain View, California 94041

Merger Proposed   Your Vote Is Very Important

To the Stockholders of PayPal, Inc.:

PayPal, Inc. has entered into a merger agreement with eBay Inc. As a result of the merger contemplated by the merger agreement, PayPal will become a wholly-owned subsidiary of eBay. The merger requires the approval of holders of a majority of the outstanding shares of PayPal common stock, and we have scheduled a special meeting of PayPal stockholders on October 3, 2002 at 1840 Embarcadero Road, Palo Alto, California 94303, commencing at 9:00 a.m., local time, to vote on the merger agreement and the merger.

Upon completion of the merger, each share of PayPal common stock will be converted into the right to receive 0.39 of a share of eBay common stock. Based on the number of shares of PayPal common stock outstanding as of the record date, eBay expects to issue approximately 24.0 million shares of eBay common stock in the merger, subject to adjustment to reflect the effect of any reclassification, stock split, stock dividend or distribution, recapitalization or the like on eBay or PayPal common stock.

eBay common stock is traded on the Nasdaq National Market under the symbol EBAY . On August 28, 2002, the closing price of eBay common stock on the Nasdaq National Market was $55.37 per share.

Both PayPal and eBay are excited about this transaction because: (1) the combined company should be able to provide a significantly improved customer experience; (2) it combines the core competencies of both companies in a natural and complementary way; (3) it should strengthen both businesses; and (4) it should create value for the stockholders of both companies.

PayPal s board of directors recommends that you vote FOR the proposal to approve and adopt the merger agreement and approve the merger. In addition, Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, Elon R. Musk, James E. Templeton, Reid G. Hoffman, Nokia Ventures, LP and entities affiliated with Sequoia Capital and Madison Dearborn Partners have each agreed to vote certain of their shares of PayPal common stock, representing in the aggregate approximately 27.7% of the outstanding PayPal common stock, FOR the proposal to approve and adopt the merger agreement and approve the merger.

Your vote is very important. Regardless of the number of shares you own or whether or not you plan to attend the special meeting, it is important that your shares be represented and voted. Voting instructions are inside.

The accompanying proxy statement/prospectus provides you with detailed information about the proposed merger and the special meeting. I urge you to read the entire document carefully. In particular, you should carefully consider the discussion in the section entitled Risk Factors beginning on page 25 of the accompanying proxy statement/prospectus.

I look forward to seeing you at the special meeting.

Sincerely,

Peter A. Thiel
Chairman and Chief Executive Officer

Mountain View, California
August 28, 2002

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if the accompanying proxy statement/ prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The accompanying proxy statement/prospectus is dated August 28, 2002, and is first being mailed to PayPal stockholders on or about September 3, 2002.

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PayPal, Inc.

303 Bryant Street
Mountain View, California 94041

Notice of Special Meeting of Stockholders

to be held on October 3, 2002

Time and Date	9:00 a.m., local time, on October 3, 2002.
Place	1840 Embarcadero Road, Palo Alto, California 94303.
Items of Business	(1) To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger among eBay Inc., Vaquita Acquisition Corp. and PayPal, Inc., and approve the merger contemplated by the Agreement and Plan of Merger.
	(2) To consider and vote upon such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.
Adjournments and Postponements	Any action on the items of business described above may be considered at the special meeting at the time and on the date specified above or at any time and date to which the special meeting may be properly adjourned or postponed.
Record Date	You are entitled to vote only if you were a PayPal stockholder at the close of business on August 28, 2002.
Meeting Admission	You are entitled to attend the special meeting only if you were a PayPal stockholder or joint holder as of the close of business on August 28, 2002 or hold a valid proxy for the special meeting. You should be prepared to present photo identification for admittance. In addition, if you are a record holder, your name is subject to verification against the list of record holders on the record date prior to being admitted to the meeting. If you are not a record holder but hold shares through a broker or nominee (*i.e.*, in street name), you should be prepared to provide proof of beneficial ownership on the record date, such as your most recent account statement or similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the special meeting.
	The special meeting will begin promptly at 9:00 a.m., local time. Check in will begin at 8:30 a.m., local time, and you should allow ample time for check-in procedures.
Voting	**Your vote is very important.** Whether or not you plan to attend the special meeting, we encourage you to read the accompanying proxy statement/prospectus and submit your proxy or voting instructions for the special meeting as soon as possible. You may submit your proxy or voting instructions for the special meeting by completing, signing, dating and returning the proxy card or voting instruction card in the pre-addressed envelope provided, or, in most cases, by using the telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled The PayPal Special Meeting beginning on page 60 of the accompanying proxy statement/ prospectus and the instructions on the proxy card or voting instruction card.

By Order of the Board of Directors,

John D. Muller
General Counsel and Secretary

Mountain View, California
August 28, 2002

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Proxy Statement for Special Meeting of Stockholders of PayPal, Inc.	Prospectus of eBay Inc. for up to 24,882,840 Shares of eBay Common Stock

eBay Inc. and PayPal, Inc. have entered into a merger agreement. As a result of the merger contemplated by the merger agreement, PayPal will become a wholly-owned subsidiary of eBay. Upon completion of the merger, each share of PayPal common stock will be converted into the right to receive 0.39 of a share of eBay common stock. On August 28, 2002, the closing price of eBay common stock on the Nasdaq National Market was $55.37 per share. eBay is traded on the Nasdaq National Market under the symbol EBAY .

The merger cannot be completed unless the holders of a majority of the outstanding shares of PayPal common stock approve and adopt the merger agreement and approve the merger that is described in this proxy statement/ prospectus.

PayPal s board of directors recommends that you vote FOR the proposal to approve and adopt the merger agreement and approve the merger. In addition, Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, Elon R. Musk, James E. Templeton, Reid G. Hoffman, Nokia Ventures, LP and entities affiliated with Sequoia Capital and Madison Dearborn Partners have each agreed to vote certain of their shares of PayPal common stock, representing in the aggregate approximately 27.7% of the outstanding PayPal common stock, FOR the proposal to approve and adopt the merger agreement and approve the merger.

This proxy statement/ prospectus provides you with detailed information about the merger agreement, the proposed merger and the special meeting. eBay provided the information concerning eBay. PayPal provided the information concerning PayPal. Please see Where You Can Find More Information on page 165 for additional information about eBay and PayPal and Information About PayPal on page 98 for additional information about PayPal.

We strongly urge you to read and consider carefully this proxy statement/prospectus in its entirety, including the matters referred to under Risk Factors beginning on page 25.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this proxy statement/ prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This proxy statement/ prospectus is dated August 28, 2002 and is first being mailed to PayPal stockholders on or about September 3, 2002.

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Sources of Additional Information

This proxy statement/prospectus incorporates important business and financial information about eBay from documents that are not included in or delivered with this proxy statement/ prospectus. Documents incorporated by reference are available from eBay without charge, excluding all exhibits unless eBay has specifically incorporated by reference an exhibit in this proxy statement/ prospectus. You may obtain documents incorporated by reference in this proxy statement/ prospectus by requesting them in writing or by telephone from eBay at the following address:

eBay Inc.

Attention: Investor Relations
2145 Hamilton Avenue
San Jose, California 95125
investorrelations@eBay.com
(408) 376-7400

If you would like to request documents from eBay, please do so by September 26, 2002 in order to receive them before the special meeting.

If you have any questions about the special meeting or if you need additional copies of this proxy statement/ prospectus, you should contact:

PayPal, Inc.

Attention: Investor Relations
303 Bryant Street
Mountain View, California 94041
investorrelations@PayPal.com
(650) 864-8000

If you would like to request additional copies of this proxy statement/prospectus from PayPal, please do so by September 26, 2002 in order to receive them before the special meeting.

For a more detailed description of the information incorporated by reference into this proxy statement/ prospectus and how you may obtain it, see Where You Can Find More Information on page 165.

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Questions and Answers About the Merger

Q: Why are eBay and PayPal proposing to merge?

A: We are proposing to merge because we believe that combining the strengths of our two companies is in the best interests of each company, its stockholders and customers. PayPal and eBay share the same overarching mission to enable online commerce. With PayPal integrated into eBay, the combined company should be able to:

- provide a significantly improved customer experience to eBay s users by making their trading experience easier, safer and faster;
- combine the core competencies of both companies in a natural and complementary way, particularly the overlapping user communities and unique skills in technology;
- strengthen both businesses and realize benefits from cost structure efficiencies and improved fraud management; and
- create value for the stockholders of both companies, as this merger represents the best strategic alternative for our respective companies and is the strategy most likely to deliver increased value to our respective stockholders.

Please see page 67 of this proxy statement/ prospectus for the numerous factors considered by the board of directors of PayPal in recommending that PayPal stockholders vote FOR the proposal to approve and adopt the merger agreement and approve the merger. Please see page 75 of this proxy statement/prospectus for eBay s reasons for the merger.

Q: What will I receive in the merger?

A: If the merger agreement is approved and adopted by PayPal stockholders and the merger is completed, you will receive 0.39 of a share of eBay common stock in exchange for each share of PayPal common stock that you own.

You will not receive fractional shares of eBay common stock. Instead, you will receive the cash value, without interest, of any fractional share of eBay common stock that you might otherwise have been entitled to receive.

Q: When do you expect the merger to be completed?

A: eBay and PayPal are working toward completing the merger as quickly as possible. The merger is expected to close in the first part of the fourth quarter of 2002.

Q: Am I entitled to appraisal rights?

A: No. Under Delaware law, no appraisal rights are available to PayPal stockholders in connection with the merger.

Q: What are the tax consequences of the merger to me?

A: We expect that the exchange of your shares of PayPal common stock for shares of eBay common stock generally will not cause you to recognize gain or loss for U.S. federal income tax purposes. However, you will recognize income or gain with respect to cash received instead of fractional shares of eBay common stock. It is a condition to the merger that eBay and PayPal receive legal opinions about the U.S. federal income tax treatment of the merger with respect to our companies and our stockholders. These opinions will not bind the Internal Revenue Service, which could take a different view. To review the tax consequences to stockholders in greater detail, see The Merger Material Federal Income Tax Consequences on page 76.

Q: Are there any risks related to the proposed transaction or any risks related to owning eBay common stock?

A: Yes. You should carefully review the risk factors beginning on page 25.

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Questions and Answers About the PayPal Special Meeting

Q: ***When and where will the PayPal special meeting be held?***

A: The special meeting will take place on October 3, 2002, at 1840 Embarcadero Road, Palo Alto, California 94303, commencing at 9:00 a.m., local time.

Q: ***What do I need to do now?***

A: Please carefully review this proxy statement/prospectus and vote the proxy card or voting instruction card you receive as soon as possible. Your proxy card or voting instruction card must be received, or you must vote using the telephone or Internet if available, no later than 11:00 a.m., local time, on October 2, 2002 in order for your shares to be voted at the special meeting, unless you attend and vote at the special meeting.

Q: ***What does PayPal s board of directors recommend?***

A: After careful consideration, PayPal s board of directors determined that the merger is advisable, and is fair and in the best interests of PayPal and its stockholders and approved the merger agreement and the merger. Accordingly, PayPal s board of directors recommends that you vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

Q: ***How can I vote?***

A: If you are a stockholder of record, you may submit a proxy for the special meeting by: (1) completing, signing, dating and returning the proxy card in the pre-addressed envelope provided; (2) using the telephone; or (3) using the Internet. For specific instructions on how to use the telephone or the Internet to submit a proxy for the special meeting, please refer to the instructions on your proxy card.

If you hold your shares of PayPal common stock in a stock brokerage account or if your shares are held by a bank or nominee (*i.e.*, in street name), you must provide the record holder of your shares with instructions on how to vote your shares. Please check the voting instruction card used by your broker or nominee to see if you may use the telephone or the Internet to provide instructions on how to vote your shares.

If you are a stockholder of record, you may also vote at the special meeting. If you hold shares in a stock brokerage account or if your shares are held by a bank or nominee (*i.e.*, in street name), you may not vote in person at the special meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares. You will also need to present photo identification and comply with the other procedures described in The PayPal Special Meeting Admission to the Special Meeting on page 60.

Q: ***What happens if I don t indicate how to vote on my proxy card?***

A: If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote FOR the approval and adoption of the merger agreement and approval of the merger.

Q: ***What happens if I do not vote?***

A: If you do not sign and send in your proxy card, vote using the telephone or Internet or vote at the special meeting or if you mark the abstain box on the proxy card, it will have the effect of a vote *against* the approval and adoption of the merger agreement and approval of the merger.

Q: ***If my shares are held in street name by my broker, will my broker vote my shares for me?***

A: Your broker will vote your shares only if you provide instructions on how to vote. Therefore, you should be sure to provide your broker with instructions on how to vote your shares. Without instructions, your shares will not be voted, which will have the effect of a vote *against* the approval and adoption of the merger agreement and approval of the merger.

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Q: Why is it important for me to vote?

A: We cannot complete the merger without the approval of holders of a majority of the outstanding shares of PayPal common stock.

Q: Have any PayPal stockholders agreed to vote FOR the merger agreement and the merger?

A: Yes. Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, Elon R. Musk, James E. Templeton, Reid G. Hoffman, Nokia Ventures, LP and entities affiliated with Sequoia Capital and Madison Dearborn Partners have each agreed to vote certain of their shares of PayPal common stock, representing in the aggregate approximately 27.7% of the outstanding PayPal common stock, FOR the proposal to approve and adopt the merger agreement and approve the merger.

Q: Can I change my vote after I have voted?

A: Yes. PayPal stockholders of record may revoke their proxies at any time prior to the time their proxies are voted at the special meeting. Proxies may be revoked by written notice to the corporate secretary of PayPal, by a later-dated proxy signed and returned by mail, or by attending the special meeting and voting in person. PayPal stockholders of record may also revoke proxies by a later-dated proxy using the telephone or Internet voting procedures described on their proxy cards.

PayPal stockholders whose shares are held in the name of a broker or nominee may change their votes by submitting new voting instructions to their brokers or nominees. Those PayPal stockholders may not vote their shares in person at the special meeting unless they obtain a signed proxy from the record holder giving them the right to vote their shares.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, Mellon Investor Services LLC, the exchange agent for the merger, will send you written instructions for exchanging your PayPal stock certificates.

Q: What do I do if I have questions?

A: If you have any questions about the special meeting or if you need additional copies of this proxy statement/ prospectus, you should contact:

PayPal, Inc.
Attention: Investor Relations
303 Bryant Street
Mountain View, California 94041
investorrelations@PayPal.com
(650) 864-8000

This proxy statement/ prospectus incorporates important business and financial information about eBay that is not included in, or delivered with, this proxy statement/ prospectus. eBay will provide you with copies of the information relating to eBay, without charge, upon written or oral request to:

eBay Inc.
Attention: Investor Relations
2145 Hamilton Avenue
San Jose, California 95125
investorrelations@eBay.com
(408) 376-7400

Summary

This summary highlights selected information from this proxy statement/ prospectus and may not contain all of the information that is important to you. To understand the merger fully, you should read carefully this entire proxy statement/prospectus and the documents we refer to. See Where You Can Find More Information on page 165. The merger agreement is attached as Annex A to this proxy statement/prospectus and is incorporated herein by reference. We encourage you to read it, as it is the most important legal document that governs the merger. We have included page references in parentheses to direct you to a more complete description contained elsewhere in this proxy statement/ prospectus of the topics presented in this summary.

The Companies

(Page 63)

eBay Inc.

2145 Hamilton Avenue
San Jose, California 95125
(408) 376-7400

eBay is in the business of providing a Web-based community platform in which buyers and sellers are brought together in an efficient and entertaining format to browse, buy and sell items such as collectibles, automobiles, high-end or premium art items, jewelry, consumer electronics and a host of practical and miscellaneous items. The eBay trading platform is a fully automated, topically arranged, intuitive and easy-to-use service that supports an auction format in which sellers list items for sale and buyers bid on items of interest and a fixed-price format in which sellers and buyers trade items at a fixed price established by sellers.

PayPal, Inc.

303 Bryant Street
Mountain View, California 94041
(650) 864-8000

PayPal enables any business or consumer with email to send and receive online payments securely, conveniently and cost-effectively. PayPal s network builds on the existing financial infrastructure of bank accounts and credit cards to create a global payment system. PayPal currently offers its account-based system to users in 38 countries including the U.S. PayPal s product was launched in October 1999. As of June 30, 2002, PayPal s network had grown to include 14.1 million personal accounts and 3.7 million business accounts. PayPal delivers a product well suited for small businesses, online merchants, individuals and others.

Vaquita Acquisition Corp.

2145 Hamilton Avenue
San Jose, California 95125
(408) 376-7400

Vaquita Acquisition Corp. is a newly-formed and wholly-owned subsidiary of eBay. If we complete the merger, Vaquita Acquisition Corp. will be merged with and into PayPal, with PayPal becoming a wholly-owned subsidiary of eBay. Vaquita Acquisition Corp. was organized solely for use in the merger. This is the only business of Vaquita Acquisition Corp.

Recommendation of the PayPal Board and PayPal s Reasons for the Merger

(Page 67)

After careful consideration of the numerous factors described in the section entitled The Merger PayPal s Reasons for the Merger; Recommendation of the PayPal Board beginning on page 67 of this proxy statement/ prospectus, PayPal s board of directors determined that the merger is advisable, and is

fair and in the best interests of PayPal and its stockholders. Accordingly, PayPal s board of directors recommends that PayPal stockholders vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

Date, Time and Place of the Special Meeting

(Page 60)

The special meeting will be held on October 3, 2002, at 1840 Embarcadero Road, Palo Alto, California 94303, commencing at 9:00 a.m., local time.

Stockholders Entitled to Vote at the Special Meeting; Vote Required

(Page 60)

The close of business on August 28, 2002 was the record date for the special meeting. Only PayPal stockholders on the record date are entitled to notice of and to vote at the special meeting. On the record date, there were 61,559,502 shares of PayPal common stock outstanding. Each share of PayPal common stock will be entitled to one vote on each matter to be acted upon at the special meeting.

Required Vote

(Page 61)

The vote of holders of a majority of the shares of PayPal common stock outstanding on the record date is required to approve and adopt the merger agreement and approve the merger.

Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, Elon R. Musk, James E. Templeton, Reid G. Hoffman, Nokia Ventures, LP and entities affiliated with Sequoia Capital and Madison Dearborn Partners have each agreed to vote certain of their shares of PayPal common stock, representing in the aggregate approximately 27.7% of the outstanding PayPal common stock, FOR the proposal to approve and adopt the merger agreement and approve the merger.

Interests of Certain Persons in the Merger

(Page 80)

When considering the recommendation by PayPal s board of directors to vote FOR the proposal to approve and adopt the merger agreement and approve the merger, you should be aware that some directors and executive officers of PayPal have interests in the merger that may be different from your interests. Some executive officers of PayPal have executed employment agreements with eBay, which will become effective upon completion of the merger. Some directors, officers and employees of PayPal who hold stock options and/or shares of restricted stock pursuant to existing plans will receive certain benefits upon completion of the merger, including accelerated vesting of those stock options and/or shares of restricted stock. Some directors and executive officers of PayPal who are parties to stockholders agreements with eBay are entitled to early release of certain transfer restrictions with respect to the PayPal common stock held by them upon adoption of the merger agreement by PayPal s stockholders. PayPal directors and officers will also receive indemnification and liability insurance benefits from eBay. PayPal s board of directors was aware of these interests and considered them in approving the merger agreement and the merger.

Stock Ownership by Directors and Executive Officers of PayPal

(Page 79)

As of the record date for the special meeting, the directors and executive officers of PayPal and their affiliates, as a group, beneficially owned approximately 36.5% of the outstanding PayPal common stock. The vote of holders of a majority of the shares of PayPal common stock outstanding on the record date is required to approve and adopt the merger agreement and approve the merger.

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Ownership of eBay Following the Merger

PayPal stockholders collectively will receive approximately 24.0 million shares of eBay common stock in the merger based on the number of shares of PayPal common stock outstanding as of the record date.

Based on the number of shares of eBay common stock and PayPal common stock outstanding as of August 28, 2002, existing PayPal stockholders will own approximately 8.5% of the eBay common stock outstanding immediately after the merger.

Nasdaq Listing

(Page 79)

If we complete the merger, stockholders will be able to trade the shares of eBay common stock they receive in the merger on the Nasdaq National Market. If we complete the merger, PayPal stock will no longer be quoted on the Nasdaq National Market or any other exchange.

Opinion of PayPal s Financial Advisor

(Page 70)

In deciding to approve the merger, the PayPal board considered, among other things, the opinion of its financial advisor, Morgan Stanley & Co. Incorporated, to the effect that, as of July 7, 2002 and based on and subject to the considerations in its opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to holders of PayPal common stock.

The full text of the written opinion of Morgan Stanley, which sets forth assumptions made, matters considered, procedures followed and the scope of the review undertaken, is attached to this proxy statement/ prospectus as Annex D. The written opinion of Morgan Stanley is not a recommendation as to how you should vote in regard to the proposal to approve and adopt the merger agreement and approve the merger. **We encourage you to read the opinion of Morgan Stanley in its entirety.**

The Merger Agreement

(Page 83)

The merger agreement is attached as Annex A to this proxy statement/prospectus. **We encourage you to read the merger agreement in its entirety.** It is the most important legal document governing the merger.

The Merger

(Page 64)

In the merger, Vaquita Acquisition Corp. will be merged with and into PayPal. PayPal will be the surviving corporation and will become a wholly-owned subsidiary of eBay.

Exchange Ratio

(Page 64)

If the merger agreement is approved and adopted and the merger is completed, you will receive 0.39 of a share of eBay common stock in exchange for each share of PayPal common stock that you own.

Fractional Shares

(Page 64)

You will not receive fractional shares of eBay common stock. Instead, you will receive the cash value, without interest, of any fractional share of eBay common stock that you might otherwise have been entitled to receive.

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Conditions To The Merger
(Page 90)

The merger will be completed only if several conditions are satisfied or waived. The conditions include:

- approval and adoption of the merger agreement by the holders of a majority of the outstanding shares of PayPal common stock;

- all filings, consents, registrations, approvals and authorizations required to be made to or obtained from any governmental entity prior to the completion of the merger by eBay and PayPal in connection with the execution and delivery of the merger agreement and the completion of the merger having been made or obtained, except that this condition will be deemed to have been satisfied unless the failure to make such filings or obtain such consents, registrations, approvals, permits and authorizations, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on eBay or PayPal;

- no court or governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, law, ordinance, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement, and no governmental entity shall have instituted any proceeding seeking any such order; and

- the accuracy of representations and warranties of eBay and PayPal contained in the merger agreement without regard to any materiality qualification, except that this condition will be deemed to have been satisfied even if such representation and warranty is not accurate unless the failure of such representation and warranty, individually or in the aggregate, has, or is reasonably likely to have, a material adverse effect on such company.

Termination
(Page 93)

eBay and PayPal can agree to terminate the merger agreement without completing the merger, and either company can terminate the merger agreement if any of the following occurs:

- they do not complete the merger by December 31, 2002, except that if either party determines that additional time is necessary in order to forestall any action to restrain, enjoin or prohibit the merger by any federal, state, local or foreign court or governmental entity with jurisdiction over enforcement of any applicable antitrust laws, the termination date may be extended by such party to a date not beyond March 31, 2003;

- PayPal s stockholders do not approve the merger at the special meeting; or

- a law, injunction or order is issued that permanently restrains, enjoins or otherwise prohibits the merger and that is final and non-appealable.

If a party elects to extend the termination date to March 31, 2003 as described above, then the other party may deliver a written update of its disclosure letter within three business days of such election to reflect new facts occurring after the date of the merger agreement. The update may be accompanied by a written request that the party electing to extend the termination date confirm that such new facts will not be deemed to render any of the non-extending party s representations and warranties untrue or incorrect as of such date or deemed to constitute a PayPal material adverse effect or an eBay material adverse effect, as the case may be, as of such date. If the party electing to extend the termination date does not provide such confirmation prior to the fifth business day after receiving such written update, then the termination date may not be extended.

In addition, PayPal may terminate the merger agreement if there has been a breach of a representation or covenant by eBay that would cause it to fail to satisfy a closing condition and such breach is not curable or, if curable, is not cured within 30 days after eBay receives written notice of the breach from PayPal.

In addition, eBay may terminate the merger agreement if:

PayPal s board of directors has changed or withdrawn its recommendation; or

there has been a breach of a representation or covenant by PayPal that would cause it to fail to satisfy a closing condition and such breach is not curable or, if curable, is not cured within 30 days after PayPal receives written notice of the breach from eBay.

Termination Fee and Expense Reimbursement
(Page 94)

PayPal has to pay a termination fee of $5 million and expenses to eBay if eBay terminates the merger agreement after PayPal s board of directors has withdrawn or adversely changed its approval or recommendation of the merger agreement in the absence of an acquisition proposal.

Under the merger agreement, an acquisition proposal is any proposal or offer with respect to a merger, reorganization, share exchange, consolidation or similar transaction involving, or any purchase of all or any material portion of the assets of, or 20% or more of the equity securities in, PayPal or any of its subsidiaries.

PayPal has to pay a termination fee of $45 million and expenses to eBay if, after an acquisition proposal has been made to PayPal or any person has publicly announced an intention, whether or not conditional, to make an acquisition proposal with respect to PayPal or any of its subsidiaries, the merger agreement has been terminated by either eBay or PayPal because:

the merger has not been completed by December 31, 2002, or March 31, 2003, if applicable;

PayPal s stockholders do not approve the merger;

PayPal s board of directors has withdrawn or adversely modified its approval or recommendation; or

there has been a breach of any representation, warranty, covenant or agreement made by PayPal in the merger agreement, or any such representation and warranty becomes untrue after the date of the merger agreement, such that certain conditions to closing of eBay would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by eBay to PayPal; and

thereafter PayPal enters into an agreement that is announced within 12 months and completed within 18 months after termination of the merger agreement and that agreement would have constituted an acquisition proposal if it had been negotiated during the term of the merger agreement.

Regulatory Approvals

(Page 78)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, prohibits eBay and PayPal from completing the merger until eBay and PayPal have furnished certain information and materials to the Antitrust Division of the Department of Justice and the Federal Trade Commission and the required waiting period has expired or been terminated. On July 18, 2002, eBay and PayPal each filed the required notification and report forms. Early termination of the required waiting period was granted on August 19, 2002.

In addition to the United States, eBay and PayPal are required to make antitrust filings in Brazil and Germany. The parties submitted a filing to the Brazilian antitrust authorities on July 26, 2002 and to the German authorities on August 1, 2002. The German authorities granted voluntary termination of the review period on August 21, 2002. Antitrust clearance in Brazil is not required before completion of the merger.

eBay is required to make filings under applicable money transmitter laws in the States of Arizona, Maryland and Vermont and the District of Columbia and may be required to make filings in additional jurisdictions.

Litigation Related to the Merger

(Page 79)

As of the date of this proxy statement/prospectus, we are aware of five purported class action lawsuits that have been filed by alleged stockholders of PayPal. These lawsuits name as defendants PayPal and each member of its board of directors as well as eBay. The lawsuits allege, among other things, that eBay controls PayPal, the defendants have breached fiduciary duties they assertedly owed to PayPal s stockholders in connection with PayPal entering into the merger agreement and the exchange ratio is unfair and inadequate. The plaintiffs in each lawsuit seek, among other things, an injunction against the consummation of the merger and an award of unspecified compensatory damages. We believe that each of the lawsuits is without merit and intend to defend ourselves vigorously.

No Appraisal Rights

(Page 79)

Under Delaware law, no appraisal rights are available to PayPal stockholders.

Material Federal Income Tax Consequences

(Page 76)

We expect that the exchange of your shares of PayPal common stock for shares of eBay common stock generally will not cause you to recognize gain or loss for U.S. federal income tax purposes. However, you will recognize income or gain with respect to cash received instead of fractional shares of eBay common stock. It is a condition to the merger that eBay and PayPal receive legal opinions about the U.S. federal income tax treatment of the merger with respect to our companies and our stockholders. These opinions will not bind the Internal Revenue Service, which could take a different view.

Risk Factors and Cautionary Statement Concerning Forward-Looking Statements

(Pages 25 through 59)

By voting in favor of the proposal to approve and adopt the merger agreement and approve the merger, you will be choosing to invest in eBay common stock. An investment in eBay common stock involves a high degree of risk. In addition to the other information contained in or incorporated by reference into this proxy statement/ prospectus, you should carefully consider the factors discussed under the caption entitled Risk Factors beginning on page 25 in deciding whether to vote in favor of the proposal to approve and adopt the merger agreement and approve the merger.

This proxy statement/prospectus and the documents incorporated by reference into this proxy statement/prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of eBay s, PayPal s and the combined company s plans, objectives, expectations and intentions. When used in this proxy statement/ prospectus and the documents incorporated by reference into this proxy statement/prospectus, the words may , might , should , expects , anticipates , believes , estimates , intends and plans and similar expressions are intended to of these forward-looking statements. Because these forward-looking statements involve risks and uncertainties, including those discussed under the caption entitled Risk Factors , the actual results of eBay, PayPal and the combined company could differ materially from those expressed or implied by the forward-looking statements in this proxy statement/ prospectus and the documents incorporated by reference into this proxy statement/ prospectus.

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Comparison of Rights of PayPal Stockholders and eBay Stockholders
(Page 159)

PayPal s charter and bylaws and Delaware corporate law govern the rights of PayPal stockholders. eBay s charter and bylaws and Delaware corporate law will govern your rights as a stockholder of eBay following the merger. Your rights under eBay s charter and bylaws will differ in some respects from your rights under PayPal s charter and bylaws.

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PayPal Selected Financial Data

The following PayPal selected financial data is provided to aid your analysis of the financial aspects of the merger. When you read this historical financial data, it is important that you also read the historical consolidated financial statements and related notes included in this proxy statement/prospectus beginning on page F-1, as well as the section entitled PayPal Management s Discussion and Analysis of Financial Condition and Results of Operations of PayPal beginning on page 130 of this proxy statement/prospectus.

The table below presents selected historical consolidated financial data of PayPal. PayPal has prepared this information using its consolidated financial statements for (1) the period from March 8, 1999 (PayPal s inception) to December 31, 1999, (2) each of the two years in the period ended December 31, 2001, and (3) the six-month periods ended June 30, 2001 and June 30, 2002. The consolidated statements for the period from March 8, 1999 to December 31, 1999, and for each of the two years in the period ended December 31, 2001, have been audited. The consolidated financial statements for the six-month periods ended June 30, 2001 and June 30, 2002 have not been audited. In the opinion of PayPal s management, these unaudited statements have been prepared on substantially the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair statement of the consolidated information for the periods presented. Operating results of the six months ended June 30, 2001 and June 30, 2002 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2002.

	Period from March 8, 1999 (Inception) to December 31, 1999	Year Ended December 31, 2000	Year Ended December 31, 2001	Six Months Ended June 30, 2001	Six Months Ended June 30, 2002
		(in thousands, except per share data)			
				(unaudited)	(unaudited)
Consolidated Statements of Operations:					
Transaction and other fees(1)	$	$ 6,547	$ 99,952	$ 31,629	$ 102,062
Interest on funds held for others(2)		2,046	3,763	2,063	471
Service agreement revenues		3,938			
Total revenues		12,531	103,715	33,692	102,533
Transaction processing expenses		25,093	47,589	19,413	35,322
Provision for transaction losses		11,028	14,760	5,540	13,114
Customer service and operations*	230	15,754	30,636	14,280	20,410
Product development*	483	4,419	8,819	4,143	6,344
Selling, general and administrative*(1)	3,691	33,021	21,357	10,660	12,766
Stock-based compensation	354	5,825	26,277	6,183	8,034
Amortization of goodwill and other intangibles(3)	124	49,313	65,661	32,830	864
Service agreement costs and termination expenses		41,142			
Non-recurring charges					5,534
Total operating expenses	4,882	185,595	215,099	93,049	102,388
Income (loss) from operations	(4,882)	(173,064)	(111,384)	(59,357)	145
Interest and other income (expense), net	263	3,558	3,582	2,449	1,871
Income (loss) before income taxes	(4,619)	(169,506)	(107,802)	(56,908)	2,016
Provision for income taxes					256
Net income (loss)(3)	$ (4,619)	$ (169,506)	$ (107,802)	$ (56,908)	$ 1,760
Net income (loss) per share(3)(4)(5):					
Basic	$ (12.09)	$ (52.47)	$ (16.39)	$ (9.80)	$ 0.04

Diluted	$(12.09)	$ (52.47)	$ (16.39)	$ (9.80)	$ 0.03
Shares used in calculating net income (loss) per share(3)(5):					
Basic	382	3,230	6,660	5,807	45,078
Diluted	382	3,230	6,660	5,807	61,840

* Amounts exclude stock-based compensation as follows:					
Customer service and operations	$ 66	$ 213	$ 1,781	$ 619	$ 1,124
Product development	138	915	7,788	775	2,191
Selling, general and administrative	150	4,697	16,708	4,789	4,719
Total	$ 354	$ 5,825	$ 26,277	$ 6,183	$ 8,034

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(1) PayPal adopted provisions of EITF 01-09 *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products* on January 1, 2002. Prior period amounts have been reclassified to conform to the new presentation.

(2) Beginning in February 2002, PayPal began to deposit all U.S.-based customer funds not transferred to the PayPal Money Market Reserve Fund into FDIC-insured bank accounts and the revenues from interest on funds held for U.S.-based customers will cease in future periods.

(3) On January 1, 2002, PayPal adopted the provisions of SFAS No. 142 and no longer amortizes goodwill. During the period from March 8, 1999 (PayPal s inception) to December 31, 1999, PayPal did not recognize any goodwill amortization. During the years ended December 31, 2000 and 2001, PayPal goodwill amortization totaled $46.7 million and $62.2 million, respectively. Had PayPal s goodwill amortization not been reflected in net loss during these years, the net loss amounts for the years ended December 31, 2000 and 2001 would have been $122.9 million and $45.6 million, respectively, with loss per share for these years of $38.03 and $7.05, respectively.

(4) PayPal closed its initial public offering on February 21, 2002 and issued 6.2 million shares of PayPal common stock. All shares of PayPal preferred stock outstanding immediately prior to the offering converted into 43.4 million shares of PayPal common stock at such time. Basic net income (loss) per share and shares used in calculating basic net income (loss) per share give effect to the conversion as of the closing date of the offering.

(5) All share and per share amounts reflect PayPal s historical stock splits in all periods presented.

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PayPal Selected Financial Data (Continued)

	December 31,			June 30,
	1999	2000	2001	2002
	(in thousands)			(unaudited)
Consolidated Balance Sheet Data:				
Cash and cash equivalents corporate	$ 8,442	$ 47,065	$ 5,760	$ 68,403
Short-term investment securities corporate		5,031	8,498	800
Long-term investment securities corporate			17,095	41,988
Restricted cash and investment securities	150	3,976	31,172	30,604
Total	$ 8,592	$ 56,072	$ 62,525	$141,795
Cash, cash equivalents and investment securities held on behalf of others(1)	$	$ 68,046	$ 144,235	$ 33,911
Funds receivable	12,842	11,271	32,074	54,106
Total assets		231,797	278,577	275,243
Due to customers		82,786	174,763	70,087
Funds payable		6,721	4,459	16,077
Reserve for transaction losses		4,900	7,233	7,384
Mandatorily redeemable convertible preferred stock(2)	15,791	241,641	279,224	
Total stockholders equity (deficit)	(4,039)	(113,453)	(199,312)	160,217

(1) Beginning in February 2002, PayPal began to deposit all U.S.-based customer funds not transferred to the PayPal Money Market Reserve Fund into FDIC-insured bank accounts.

(2) PayPal closed its initial public offering on February 21, 2002 and issued 6.2 million shares of PayPal common stock. All shares of PayPal preferred stock outstanding immediately prior to the offering converted into 43.4 million shares of PayPal common stock at such time.

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eBay Selected Financial Data

The following eBay selected financial data is provided to aid your analysis of the financial aspects of the merger. When you read this historical financial data, it is important that you also read eBay s historical consolidated financial statements and related notes incorporated by reference into this proxy statement/prospectus, as well as the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in eBay s annual and quarterly reports incorporated by reference into this proxy statement/prospectus. See Where You Can Find More Information on page 165.

The table below presents selected historical consolidated financial data of eBay. The consolidated financial data for the five years ended December 31, 2001 have been derived from audited consolidated financial statements of eBay incorporated by reference into this proxy statement/ prospectus. The consolidated financial data for the six-month periods ended June 30, 2001 and June 30, 2002 have been derived from unaudited interim consolidated financial statements of eBay incorporated by reference into this proxy statement/ prospectus. Operating results of the six months ended June 30, 2001 and June 30, 2002 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2002 or any other period.

	Year Ended December 31,					Six Months Ended June 30,	
	1997	1998	1999	2000	2001	2001	2002
	(in thousands, except per share data)					(unaudited)	
Summary Consolidated Statements of Income:							
Net revenues	$ 41,370	$ 86,129	$224,724	$431,424	$748,821	$334,995	$511,393
Cost of net revenues	8,404	16,094	57,588	95,453	134,816	59,874	85,838
Gross profit	32,966	70,035	167,136	335,971	614,005	275,121	425,555
Operating expenses:							
Sales and marketing	15,618	35,976	96,239	166,767	253,474	115,653	152,908
Product development	831	4,640	24,847	55,863	75,288	33,388	48,653
General and administrative	6,534	15,849	43,919	73,027	105,784	46,932	69,089
Payroll expense on employee stock options				2,337	2,442	812	2,110
Amortization of acquired intangible assets(1)		805	1,145	1,433	36,591	12,177	2,638
Merger related costs			4,359	1,550			
Total operating expenses	22,983	57,270	170,509	300,977	473,579	208,962	275,398
Income (loss) from operations	9,983	12,765	(3,373)	34,994	140,426	66,159	150,157
Interest and other income (expense), net	(1,951)	(703)	21,412	46,025	46,276	26,140	15,613
Impairment of certain equity investments					(16,245)	(9,921)	(1,181)
Income before income taxes	8,032	12,062	18,039	81,019	170,457	82,378	164,589
Provision for income taxes	(971)	(4,789)	(8,472)	(32,725)	(80,009)	(36,703)	(62,697)
Net income(1)	$ 7,061	$ 7,273	$ 9,567	$ 48,294	$ 90,448	$ 45,675	$101,892
Net income per share(1)(2):							
Basic	$ 0.14	$ 0.07	$ 0.04	$ 0.19	$ 0.34	$ 0.17	$ 0.36
Diluted	$ 0.04	$ 0.03	$ 0.04	$ 0.17	$ 0.32	$ 0.16	$ 0.36

Weighted average shares(2):							
Basic	48,854	104,128	217,674	251,776	268,971	264,962	279,525
Diluted	169,550	233,519	273,033	280,346	280,595	281,145	285,142

(1) On January 1, 2002, eBay adopted the provisions of SFAS No. 142 and no longer amortizes goodwill. During the years ended December 31, 1997 and 1998, eBay did not recognize any goodwill amortization. During the years ended December 31, 1999, 2000 and 2001, eBay goodwill amortization totaled $0.1 million, $0.6 million and $32.6 million, respectively. Had eBay s goodwill amortization not been reflected in net income during these years, the net income amounts for the years ended December 31, 1999, 2000 and 2001 would have been $9.7 million, $48.9 million and $123.0 million, respectively, with diluted income per share for these years of $0.04, $0.17 and $0.44, respectively.

(2) All share and per share amounts reflect eBay s historical stock splits in all periods presented.

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eBay Selected Financial Data (Continued)

	December 31,					June 30,
	1997	1998	1999	2000	2001	2002
				(in thousands)		(unaudited)
Summary Consolidated Balance Sheet Data:						
Cash and cash equivalents	$12,109	$ 37,285	$221,801	$ 201,873	$ 523,969	$ 616,867
Short-term investments		40,401	181,086	354,166	199,450	121,651
Long-term investments			373,988	218,197	286,998	412,969
Restricted cash and investments				126,390	129,614	129,963
Working capital	(1,881)	72,934	372,266	538,022	703,666	724,365
Total assets	62,350	149,536	969,825	1,182,403	1,678,529	1,970,023
Long-term debt	16,307	18,361	15,018	11,404	12,008	9,808
Total stockholders equity	9,722	100,538	854,129	1,013,760	1,429,138	1,696,103

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eBay
Unaudited Pro Forma Condensed Combined Financial Information

Introduction

The following unaudited pro forma condensed combined financial information gives effect to the proposed merger between eBay and PayPal using the purchase method. The information is only a summary and should be read together with eBay s and PayPal s historical financial statements. eBay s historical consolidated financial statements and related notes are contained in eBay s Annual Report on Form 10-K for the year ended December 31, 2001, which is incorporated by reference into this proxy statement/prospectus. See Where You Can Find More Information on page 165. PayPal s historical consolidated financial statements and related notes are included elsewhere in this proxy statement/prospectus beginning on page F-1.

Pro forma information is based on an exchange ratio for the merger of 0.39 of a share of eBay common stock for each share of PayPal common stock. The actual number of shares of eBay common stock to be issued in the proposed merger and the total purchase price cannot be determined until the closing date of the merger. The unaudited pro forma condensed combined financial information was prepared based on the number of shares of PayPal common stock outstanding on June 30, 2002.

The unaudited pro forma condensed combined balance sheet is based on the historical balance sheets of eBay and PayPal and has been prepared to reflect the acquisition as if it had been consummated on June 30, 2002. The unaudited pro forma condensed combined statements of income combine the results of operations of eBay and PayPal for the year ended December 31, 2001 and the six months ended June 30, 2002, as if the acquisition had occurred on January 1, 2001.

The pro forma adjustments are based on preliminary estimates, available information and certain assumptions and may be revised as additional information becomes available. The unaudited pro forma condensed combined financial information is not intended to represent what eBay s financial position or results of operations would actually have been if the acquisition had occurred on those dates or to project eBay s financial position or results of operations for any future period. Since eBay and PayPal were not under common control or management for any period presented, the unaudited pro forma condensed combined financial results may not be comparable to, or indicative of, future performance.

Reclassifications have been made to the PayPal historical balance sheet and income statement information previously reported by PayPal to conform to eBay s presentation.

Upon completion of the merger, eBay intends to discontinue PayPal s current business operations related to payment processing transactions for merchants involved in online gambling activities. Approximately 8% of PayPal s revenues were derived from those types of transactions in the six-month period ended June 30, 2002. The unaudited pro forma condensed combined financial information included in this proxy statement/ prospectus does not include any adjustments for eBay s intended discontinuation of PayPal s current business operations related to payment processing transactions for merchants involved in online gambling activities.

We cannot assure you that eBay and PayPal will not incur charges in excess of those included in the pro forma preliminary purchase price related to the merger or that management will be successful in its efforts to integrate the operations of the companies.

The unaudited pro forma condensed combined financial information included in this proxy statement/prospectus does not include any adjustments for liabilities resulting from integration planning. Management of eBay is assessing the costs associated with integration and estimates of related costs are not yet known.

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eBay

Unaudited Pro Forma Condensed Combined Balance Sheet

	Historical eBay June 30, 2002	Historical PayPal June 30, 2002	Pro Forma Adjustments	Pro Forma Combined
	(in thousands)			
Assets				
Current assets:				
Cash and cash equivalents corporate	$ 616,867	$ 68,403	$	$ 685,270
Cash and cash equivalents customer accounts		33,911		33,911
Short-term investments	121,651	800		122,451
Restricted cash, current portion		22,947		22,947
Accounts receivable, net	128,769			128,769
Funds receivable		54,106		54,106
Other current assets	70,299	7,838		78,137
Total current assets	937,586	188,005		1,125,591
Long-term investments	412,969	41,988		454,957
Restricted cash and investments	129,963	7,657		137,620
Property and equipment, net	187,055	21,021		208,076
Goodwill	252,891	15,552	(15,552)(c)	1,481,711
			1,228,820 (a)	
Intangible assets, net	11,089		230,000 (a)	241,089
Deferred tax assets	23,520			23,520
Other assets	14,950	1,020		15,970
	$1,970,023	$ 275,243	$1,443,268	$3,688,534
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$ 36,531	$ 535	$	$ 37,066
Due to customers		70,087		70,087
Funds payable		16,077		16,077
Accrued expenses and other current liabilities	116,025	21,801	18,000 (a)	155,826
Deferred revenue and customer advances	22,373			22,373
Short-term debt	14,974			14,974
Income taxes payable	23,318			23,318
Total current liabilities	213,221	108,500	18,000	339,721
Long-term debt	9,808	6,526		16,334
Other liabilities	20,421		92,000 (a)	112,421
Minority interests	30,470			30,470
	273,920	115,026	110,000	498,946
Stockholders equity:				
Common Stock	282	61	(61)(b)	306
			24 (a)	
Additional paid-in capital	1,406,083	466,248	(466,248)(b)	2,929,544
			1,523,461 (a)	
Unearned stock-based compensation	(692)	(23,039)	23,039 (b)	(30,692)
			(30,000)(a)	

Retained earnings (deficit)	266,475	(281,517)	281,517 (b)	266,475
Stockholder notes		(1,960)	1,960 (b)	
Accumulated other comprehensive income	23,955	424	(424)(b)	23,955
Total stockholders equity	1,696,103	160,217	1,333,268	3,189,588
	$1,970,023	$ 275,243	$1,443,268	$3,688,534

See accompanying notes to Unaudited Pro Forma Condensed Combined Financial Information.

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eBay

Unaudited Pro Forma Condensed Combined Statement of Income

	Year Ended December 31, 2001			
	Historical eBay	**Historical PayPal**	**Pro Forma Adjustments**	**Pro Forma Combined**
	(in thousands, except per share data)			
Net revenues	$748,821	$ 103,715	$	$852,536
Cost of net revenues	134,816	78,175	933 (d)	23,924
Gross profit	614,005	25,540	(933)	638,612
Operating expenses:				
Sales and marketing	253,474	4,822	1,866 (d)	260,162
Product development	75,288	16,607	4,665 (d)	96,560
General and administrative	105,784	49,834	8,086 (d)	163,704
Payroll expense on employee stock options	2,442			2,442
Amortization of acquired intangible assets	36,591	65,661	(65,661)(c)	72,115
			35,524 (a)	
Total operating expenses	473,579	136,924	(15,520)	594,983
Income (loss) from operations	140,426	(111,384)	14,587	43,629
Interest and other income (expense), net	41,613	3,582		45,195
Interest expense	(2,851)			(2,851)
Impairment of certain equity investments	(16,245)			(16,245)
Income (loss) before income taxes and minority interests	162,943	(107,802)	14,587	69,728
Provision for income taxes	(80,009)		37,460 (e)	(42,549)
Minority interest in consolidated companies	7,514			7,514
Net income (loss)	$ 90,448	$(107,802)	$ 52,047	$ 34,693
Net income per share:				
Basic	$ 0.34			$ 0.12
Diluted	$ 0.32			$ 0.11
Weighted average shares:				
Basic	268,971		23,662 (f)	292,633
Diluted	280,595		25,521 (f)	306,116

See accompanying notes to Unaudited Pro Forma Condensed Combined Financial Information.

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eBay

Unaudited Pro Forma Condensed Combined Statement of Income

	Six Months Ended June 30, 2002			
	Historical eBay	Historical PayPal	Pro Forma Adjustments	Pro Forma Combined
	(in thousands, except per share data)			
Net revenues	$511,393	$102,533	$	$613,926
Cost of net revenues	85,838	53,711	803 (d)	140,352
Gross profit	425,555	48,822	(803)	473,574
Operating expenses:				
Sales and marketing	152,908	2,210	636 (d)	155,754
Product development	48,653	8,536	1,849 (d)	59,038
General and administrative	69,089	37,067	3,490 (d)	109,646
Payroll expense on employee stock options	2,110			2,110
Amortization of acquired intangible assets	2,638	864	(864)(c)	20,400
			17,762 (a)	
Total operating expenses	275,398	48,677	22,873	346,948
Income (loss) from operations	150,157	145	(23,676)	126,626
Interest and other income (expense), net	16,388	1,871		18,259
Interest expense	(1,383)			(1,383)
Impairment of certain equity investments	(1,181)			(1,181)
Income (loss) before income taxes and minority interests	163,981	2,016	(23,676)	142,321
Provision for income taxes	(62,697)	(256)	8,640 (e)	(54,313)
Minority interest in consolidated companies	608			608
Net income (loss)	$101,892	$ 1,760	$(15,036)	$ 88,616
Net income per share:				
Basic	$ 0.36			$ 0.29
Diluted	$ 0.36			$ 0.29
Weighted average shares:				
Basic	279,525		23,662 (f)	303,187
Diluted	285,142		25,521 (f)	310,663

See accompanying notes to Unaudited Pro Forma Condensed Combined Financial Information.

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Notes to eBay Unaudited Pro Forma Condensed Combined Financial Information

Note 1 Pro Forma Adjustments and Assumptions

The measurement date to determine the final purchase price of the proposed merger has not occurred. The pro forma adjustments are based on preliminary estimates which may change as additional information is obtained.

Reclassifications have been made to the PayPal historical balance sheet and income statement information previously reported by PayPal to conform to eBay s presentation. PayPal s transaction processing expense is presented by eBay as a component of cost of revenues. The provision for transaction losses is presented as a component of general and administrative expense. Customer service and operations expense is presented as components of cost of net revenues and general and administrative expense with the allocation based on the nature of the costs incurred. Selling, general and administrative expense is presented as a component of selling and marketing expense and general and administrative expense with the allocation based on the nature of the costs incurred. Stock-based compensation is presented as a component of cost of revenues, sales and marketing expense, product development expense, and general and administrative expense with the allocation based on the job responsibility of the individual employees associated with the cost. Non-recurring charges are recorded as a component of general and administrative expense.

(a) The preliminary purchase price reflects the assumed issuance of 23,662,000 shares of eBay common stock to PayPal stockholders using an exchange ratio of 0.39, based on the shares of PayPal common stock outstanding on June 30, 2002. The fair value of eBay common stock assumed to be issued is based on a per share value of $59.50, which is equal to eBay s average closing share price for the five trading days ended July 5, 2002 as reported on the Nasdaq National Market. For the purposes of determining the fair value of the options assumed, eBay also used the $59.50 per share average closing price for the five days ended July 5, 2002. For purposes of the pro forma financial information, the following table presents the preliminary purchase price.

Preliminary purchase price (in thousands):

Fair value of eBay common stock to be issued	$1,407,871
Estimated fair value of PayPal options to be assumed	115,614
Estimated acquisition-related costs	18,000
Aggregate purchase price	$1,541,485

The actual number of shares of eBay common stock to be issued and PayPal options to be assumed will be based on the actual number of shares of PayPal common stock and options outstanding at the closing date.

The estimated acquisition-related costs consist primarily of investment banking, legal and accounting fees, printing costs and other external costs directly related to the acquisition.

The following represents the preliminary allocation of the aggregate purchase price to the acquired net assets of PayPay and based on PayPal s net assets as of June 30, 2002.

Preliminary purchase price allocation (in thousands):

Net tangible assets	$ 144,665
Identifiable intangible assets	230,000
Deferred tax liability	(92,000)
Unearned stock-based compensation	30,000
Goodwill	1,228,820
Aggregate purchase price	$1,541,485

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Net tangible assets were valued at their respective carrying amounts as management believes that these amounts approximate their current fair values. PayPal s net tangible assets total $144.7 million as of June 30, 2002, and exclude goodwill and other intangible assets of $15.6 million.

Management valued the identifiable intangible assets acquired using a preliminary valuation performed by an independent appraiser. Identifiable intangible assets consist of user base, trade name and developed technology totaling $148 million, $68 million and $14 million, respectively. Amortization of acquired intangible assets has been provided over the following estimated useful lives: user base seven years; trade name seven years; and existing technology three years. This allocation will result in annual amortization of approximately $21 million for user base, $10 million for trade name and $5 million for existing technology.

The $30 million of unearned stock-based compensation represents the unearned portion, as of June 30, 2002, of the intrinsic value of PayPal s unvested common stock options to be assumed in the proposed merger. For purposes of purchase price allocation, PayPal s outstanding options that will vest solely as a result of the proposed merger are deemed to be vested as of June 30, 2002. The unearned stock-based compensation relating to the unvested options is being amortized on an accelerated basis over the remaining vesting period of less than one to three years, consistent with the graded vesting approach described in FASB Interpretation No. 28.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets. The unaudited pro forma condensed combined statement of operations does not reflect the amortization of goodwill acquired in the proposed merger consistent with the guidance in Financial Standards Board (FASB) Statement No. 142, Goodwill and Other Intangible Assets.

If eBay had adopted the provisions of SFAS No. 142 on January 1, 2001, eBay goodwill amortization of $32.6 million would not have been reflected in the unaudited pro forma condensed combined statement of income and the pro forma income and diluted pro forma income per share would have been $67.3 million and $0.22, respectively.

(b) To eliminate PayPal s stockholders equity.

(c) To eliminate PayPal s capitalized goodwill and other intangible assets aggregating $15.6 million at June 30, 2002 and related amortization of $65.7 million and $864,000 for the year ended December 31, 2001 and the six-month period ended June 30, 2002, respectively.

(d) To amortize unearned stock-based compensation resulting from the intrinsic value of PayPal s unvested common stock options assumed in the proposed merger.

(e) To provide for a blended statutory tax rate of 40% for the year ended December 31, 2001 and 38% for the six months ended June 30, 2002, adjusted for non-deductible expenses.

(f) Basic net income per share is calculated by dividing the net income for the period by the weighted average common shares outstanding for the period, inclusive of the assumed 23,662,000 shares for issuance in this proposed acquisition. Weighted average common shares outstanding for the diluted net income per share calculation includes the assumed 23,662,000 shares for issuance in this proposed acquisition and employee stock options determined using the treasury stock method, of 1.9 million for the year ended December 31, 2001 and 1.9 million for the six months ended June 30, 2002.

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Comparative Historical and Pro Forma Per Share Data

The following tables set forth certain historical per share data of eBay and PayPal and combined per share data on an unaudited pro forma basis after giving effect to the merger using the purchase method of accounting assuming 0.39 of a share of eBay common stock is used in exchange for each share of PayPal common stock. The following data should be read in conjunction with the separate historical consolidated financial statements of eBay incorporated by reference into this proxy statement/ prospectus and the historical consolidated financial statements of PayPal included elsewhere in this proxy statement/prospectus. The unaudited pro forma combined per share data do not necessarily indicate the operating results that would have been achieved had the merger been completed as of the beginning of the earliest period presented and should not be taken as representative of future operations. All per share information has been restated, as applicable, for stock splits, as discussed in PayPal s consolidated financial statements and notes thereto. No cash dividends have ever been declared or paid on eBay or PayPal common stock.

	eBay		PayPal
Net income per share (diluted):		**Net income (loss) per share (diluted):**	
Six months ended June 30, 2002	$0.36	Six months ended June 30, 2002	$ 0.03
Year ended December 31, 2001	$0.32	Year ended December 31, 2001	$(16.39)
Book value per share(1):		**Book value (deficit) per share(1):**	
June 30, 2002	$6.02	June 30, 2002	$ 2.64
December 31, 2001	$5.15	December 31, 2001	$(17.99)

	eBay Pro Forma Combined	PayPal Equivalent Pro Forma Combined(2)
Net income per share (diluted):		
Six months ended June 30, 2002	$ 0.29	$0.11
Year ended December 31, 2001	$ 0.11	$0.04
Book value per share(1):		
June 30, 2002	$10.45	$4.08

(1) Historical book value per share is computed by dividing stockholders equity by the number of shares of eBay or PayPal common stock outstanding at the end of each period. Pro forma book value per share is computed by dividing pro forma stockholders equity by the pro forma number of shares of eBay common stock outstanding at the end of each period.

(2) The PayPal equivalent pro forma combined per share amounts are calculated by multiplying eBay combined pro forma share amounts by the exchange ratio in the merger of 0.39 of a share of eBay common stock for each share of PayPal common stock.

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Comparative Per Share Market Price Data

PayPal common stock has traded on the Nasdaq National Market under the symbol PYPL since February 15, 2002, which was the date of its initial public offering. eBay common stock is traded on the Nasdaq National Market under the symbol EBAY .

The following table shows, for the calendar quarters indicated, the high and low sale prices per share, adjusted for stock splits and the like, of PayPal common stock and eBay common stock as reported on the Nasdaq National Market.

	PayPal common stock		eBay common stock	
Calendar Quarters	**High**	**Low**	**High**	**Low**
1999:				
First Quarter			$ 88.69	$27.67
Second Quarter			117.00	63.34
Third Quarter			80.50	35.14
Fourth Quarter			93.00	62.25
2000:				
First Quarter			127.50	58.69
Second Quarter			93.88	48.56
Third Quarter			77.56	43.50
Fourth Quarter			70.25	26.75
2001:				
First Quarter			55.13	28.44
Second Quarter			71.30	29.25
Third Quarter			70.20	40.48
Fourth Quarter			72.74	44.00
2002:				
First Quarter	$22.44	$12.00	69.50	48.85
Second Quarter	30.48	17.50	64.10	49.25
Third Quarter (through August 28, 2002)	24.00	18.30	62.47	51.05

The following table shows the closing sale prices per share of PayPal common stock and eBay common stock each as reported on the Nasdaq National Market on:

July 5, 2002, the business day preceding public announcement that eBay and PayPal had entered into the merger agreement; and

August 28, 2002, the last full trading day for which closing prices were available as of the date of this proxy statement/prospectus.

The table also includes the equivalent price per share of PayPal common stock on those dates. This equivalent per share price reflects the value of the eBay common stock you would receive for each share of your PayPal common stock if the merger were completed on either of those dates applying the exchange ratio of 0.39 of a share of eBay common stock for each share of PayPal common stock and using the closing sale price of eBay common stock on those dates.

	PayPal common stock	eBay common stock	Equivalent price per share of PayPal common stock
July 5, 2002	$20.00	$60.55	$23.61
August 28, 2002	$21.41	$55.37	$21.59

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The above table only shows historical comparisons. The specific dollar value of the eBay common stock that you will receive upon completion of the merger will depend on the market value of eBay common stock at the time of completion of the merger. Accordingly, these comparisons may not provide you with meaningful information in determining whether to approve and adopt the merger agreement and approve the merger. You are urged to obtain current market quotations because the market price of eBay common stock may increase or decrease before the completion of the merger. You should also review carefully the other information contained in or incorporated by reference into this proxy statement/prospectus.

As of the record date, there were approximately 650 holders of record of PayPal common stock.

Dividend Data

Neither eBay nor PayPal has ever declared or paid a cash dividend on its common stock. eBay and PayPal currently intend to retain any future earnings to fund the growth and development of their businesses and do not anticipate paying any cash dividends in the foreseeable future.

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Risk Factors

By voting in favor of the proposal to approve and adopt the merger agreement and approve the merger, you will be choosing to invest in eBay common stock. An investment in eBay common stock involves a high degree of risk. In addition to the other information contained in or incorporated by reference into this proxy statement/ prospectus, you should carefully consider the following risk factors in deciding whether to vote in favor of the proposal to approve and adopt the merger agreement and approve the merger.

Risks Related to the Merger

As a PayPal Stockholder, If the Merger Is Completed, You Will Receive 0.39 of a Share of eBay Common Stock for Each Share of PayPal Common Stock Despite Changes in the Market Value of PayPal Common Stock or eBay Common Stock.

Upon completion of the merger, each share of PayPal common stock will be exchanged for 0.39 of a share of eBay common stock. There will be no adjustment for changes in the market price of either PayPal common stock or eBay common stock. Accordingly, the specific dollar value of the eBay common stock that you will receive upon completion of the merger will depend on the market value of eBay common stock at the time of completion of the merger. The merger may not be completed immediately following the special meeting of PayPal stockholders if all regulatory approvals have not yet been obtained and other conditions have not been satisfied or waived. We cannot assure you that the value of the eBay common stock that you will receive in the merger will not decline prior to or after the merger.

The shares of PayPal common stock purchased in PayPal s initial public offering and secondary offering are generally not subject to any contractual transfer restrictions and may be sold at any time prior to completion of the merger. In addition, a significant number of shares of PayPal common stock are expected to become available for sale upon the expiration of various lock-up agreements. The following table sets forth information about the expiration of these lock-up agreements.

Relevant Dates	Approximate Number of Shares of PayPal Common Stock Eligible for Future Sale	Approximate Percentage of Outstanding PayPal Common Stock	Comment
On the date of this proxy statement/prospectus	41,459,961	67.3%	Freely tradeable shares sold in PayPal s initial public offering and secondary offering and shares saleable under Rules 144, 144(k) and 701 of the Securities Act
November 13, 2002	7,868,776	12.8%	Shares subject to lock-up agreements entered into in connection with PayPal s secondary offering are released and a portion of the shares subject to transfer restrictions under the stockholders agreements are released

An additional 11,854,336 shares of PayPal common stock will not become available for sale until after the merger is completed or the merger agreement is terminated.

Future sales of substantial amounts of PayPal common stock in the public market, or the availability of such shares for sale, including shares issued upon the exercise of outstanding options, could adversely affect the market price of PayPal common stock and eBay common stock.

PayPal Executive Officers and Directors Have Interests that May Influence, or Even Obligate Them to Support and Approve the Merger.

Some of the directors and executive officers of PayPal will receive continuing indemnification against liabilities and have PayPal restricted stock, stock options and employment agreements that provide them

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with interests in the merger, such as accelerated vesting of restricted stock and stock options upon completion of the merger, that are different from, or are in addition to, your interests in the merger. As a result, these directors and officers may be more likely to vote to approve and adopt the merger agreement and approve the merger than if they did not have these interests. Some of these officers and directors have already agreed to vote in favor of the proposal to approve and adopt the merger agreement and approve the merger and will be released from certain transfer restrictions on their shares of PayPal common stock upon the approval and adoption of the merger agreement and approval of the merger. As of the close of business on the record date for the special meeting of PayPal stockholders at which the merger agreement will be presented and voted upon, PayPal officers and directors beneficially owned approximately 36.5% of all outstanding shares of PayPal common stock entitled to vote at the meeting. For a description of some of these interests, see the sections entitled Interests of Certain Persons in the Merger , The Merger Agreement and Other Material Agreements Related to the Merger beginning on page 80, page 83 and page 95, respectively, of this proxy statement/prospectus.

We Expect to Incur Significant Costs Associated with the Merger.

eBay estimates that it will incur direct transaction costs of approximately $18 million associated with the merger, which will be included as part of the total purchase price. In addition, PayPal estimates that it will incur direct transaction costs of approximately $5 million which will be recognized as expenses as incurred. eBay and PayPal believe the combined entity may incur charges to operations, which are not currently reasonably estimable, in the quarter in which the merger is completed or the following quarters, to reflect costs associated with integrating the two companies. There can be no assurance that the combined company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the merger and the integration of the two companies.

Future Operating Results of the Combined Company Could Be Adversely Affected as a Result of Purchase Accounting Treatment and the Impact of Amortization and Impairment of Intangible Assets Relating to the Merger.

In accordance with generally accepted accounting principles, eBay will account for the merger using the purchase method of accounting. Under the purchase method of accounting, eBay will record the fair value of the eBay common stock issued in connection with the merger, the fair value of the options to purchase PayPal common stock that become options to purchase eBay common stock and the amount of direct transaction costs as the cost of combining with PayPal. eBay will allocate the total purchase price to the individual assets acquired and liabilities assumed by eBay, including various identifiable intangible assets (such as user base, trade names and developed technology), based on their respective fair values at the date of the completion of the merger. eBay s preliminary valuation of acquired intangible assets totaled $230 million and these amounts will be required to be amortized over their estimated useful lives, ranging from three to seven years. eBay expects that it will initially incur incremental charges for amortization of intangible assets of approximately $9 million per quarter. The purchase price will also be allocated to deferred compensation, based on the portion of the intrinsic value of the unvested PayPal options and restricted stock assumed by eBay to the extent that service is required after completion of the merger in order to vest. The preliminary amount allocated to deferred compensation totals $30 million and eBay expects that it will initially incur incremental charges for stock based compensation of approximately $4 million per quarter. Any excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired will be accounted for as goodwill. eBay will not be required to amortize goodwill against income but goodwill will be subject to periodic reviews for impairment. If eBay is required to recognize an impairment charge, the charge would negatively impact reported earnings in the period of the charge.

The Market Price of the Shares of eBay Common Stock May Be Affected by Factors Different from Those Affecting the Shares of PayPal Common Stock.

Upon completion of the merger, holders of PayPal common stock will become holders of eBay common stock. An investment in eBay common stock has different risks than an investment in PayPal common stock. Although eBay currently has operating subsidiaries that conduct online payment processing services, such subsidiaries generate a relatively small portion of eBay s total revenues. Accordingly, eBay s business, and the market price of eBay common stock, is affected by a variety of factors, only some of which apply to online payment processing services. Former holders of PayPal common stock will be subject to additional risks upon exchange of their shares of PayPal common stock for eBay common stock in the merger, some of which are described below under Risks Related to eBay and PayPal as a Combined Company After the Merger on page 30. For a discussion of the businesses of eBay and PayPal, see the documents incorporated by reference into this document and referred to under Where You Can Find More Information on page 165 and see the Information About PayPal section on page 98.

The Discontinuance of PayPal s Transactions with Merchants Involved in Online Gambling Activities is Expected to Reduce PayPal s Revenues and Profits and Affect the Comparability of PayPal s Historical Financial Results to Anticipated Future Financial Results of the Combined Company.

Upon completion of the merger, eBay intends to discontinue PayPal s current business operations relating to payment processing transactions for merchants involved in online gambling activities. Approximately 8% of PayPal s revenues were derived from those types of transactions in the six-month period ended June 30, 2002. Because PayPal will no longer derive revenues from these transactions after the merger has been completed, a comparison of PayPal s pre-merger financial results to the combined company s post-merger financial results should take into account the loss of revenues from these transactions.

On August 20, 2002, PayPal reached an agreement with the Attorney General of the State of New York in the state s inquiry into payments made through PayPal s service to online gambling merchants. In an assurance of discontinuance made to the New York Attorney General, PayPal agreed to cease processing payments from its New York members to online gambling merchants by September 1, 2002. PayPal took this action in voluntary cooperation with the New York Attorney General and did not admit to a violation of law. The New York Attorney General has agreed to accept PayPal s assurance of discontinuance in lieu of commencing a statutory proceeding. PayPal also agreed to pay $200,000 to the State of New York in penalties, disgorged profits and to cover the New York Attorney General s costs of investigation.

PayPal has received federal grand jury subpoenas issued at the request of the United States Attorney for the Eastern District of Missouri. These subpoenas seek the production of documents related to online gambling activities. PayPal intends to cooperate fully with the United States Attorney s office in this matter.

Risks Related to PayPal if the Merger Is Not Completed

If the Merger is Not Completed, the Price of PayPal Common Stock and Future Business and Operations Could Be Harmed.

If the merger is not completed, PayPal may be subject to the following material risks, among others:

- PayPal may not be able to find a party willing to pay an equivalent or more attractive exchange ratio than the ratio offered by eBay;
- PayPal may be required to pay eBay a termination fee of $5,000,000 or $45,000,000 and reimburse eBay s expenses, as described on page 94;
- the price of PayPal common stock may decline to the extent that the current market price of PayPal common stock reflects an assumption that the merger will be completed;

PayPal s costs related to the merger, such as legal, accounting and some of its financial advisory fees, must be paid even if the merger is not completed;

PayPal would not realize the benefits it expects by being part of a combined company with eBay, as well as the potentially enhanced financial position as a result of being part of the combined company;

the diversion of management attention from PayPal s day-to-day business and the unavoidable disruption to its employees and its relationships with users and partners as a result of efforts and uncertainties relating to PayPal s anticipated merger with eBay may detract from PayPal s ability to grow revenues and minimize costs, which, in turn may lead to a loss of market position that PayPal could be unable to regain if the merger does not occur; and

PayPal may not be able to continue its present level of operations, may need to scale back its business and may not be able to take advantage of future opportunities or effectively respond to competitive pressures, any of which could have a material adverse effect on its business and results of operations.

Stockholders May Sell Substantial Amounts of PayPal Common Stock on the Public Market, Which Is Likely to Depress the Price of PayPal Common Stock.

A significant number of shares of PayPal common stock may be sold at any time prior to the merger, as discussed on page 25. Any substantial sales of PayPal common stock on the public market by current stockholders may cause the market price of PayPal common stock to decline.

If PayPal s current stockholders sell PayPal common stock in the public market prior to the merger, it is likely that arbitrageurs will acquire such shares. These arbitrageurs would likely sell all such shares on the public market immediately following any announcement, or anticipated announcement, that the merger with eBay failed, or will likely fail, to close for regulatory or other reasons, which in turn would likely cause the market price of PayPal common stock to decline.

In addition to the other negative effects on PayPal, all such sales of PayPal common stock might make it more difficult for PayPal to sell equity or equity-related securities in the future if the merger with eBay is not completed.

The Delay in Closing the Planned Merger Could Have an Adverse Effect on PayPal s Revenues in the Near-term.

To the extent a prolonged delay in completing the planned merger creates uncertainty among PayPal s users, such delay could have an adverse effect on PayPal s results of operations, and quarterly revenues could be substantially below the expectations of market analysts and could cause a reduction in the stock price of PayPal common stock. In addition, eBay has announced that it plans to phase out PayPal s processing of payments for online gambling merchants after the merger is completed as a result of the uncertain regulatory environment surrounding online gambling. As a result of this announcement, PayPal may lose significant revenues in the near-term associated with online gambling merchants seeking alternatives to PayPal s product prior to the merger or arising out of the uncertainty of how long PayPal may continue to process payments for online gambling merchants.

If the Merger Is Not Completed, a Number of Factors May Continue to Cause PayPal s Actual Results, Levels of Activity, Performance or Achievements to Differ Materially from Any Future Results, Levels of Activity, Performance or Achievements.

The risks associated with the combined company if the merger is completed are described below under Risks Related to eBay and PayPal as a Combined Company After the Merger. If the merger is not completed, PayPal expects to continue to operate its business substantially as presently operated. Accordingly, a number of factors may continue to cause PayPal s actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements. In addition to the factors described below under Risks Related to PayPal s Business Prior to and After the Merger , these factors include without limitation the following:

PayPal might not implement successfully strategies to increase adoption of its electronic payment methods, which would limit PayPal s growth and cause its stock price to decline.

PayPal depends on online auction transactions for a significant percentage of its payment volume. If PayPal s ability to process payments for online auctions is impaired, PayPal s financial results and growth prospects would be affected significantly and negatively.

PayPal faces strong competitors and its industry is evolving rapidly. If PayPal does not compete effectively, the demand for its product may decline, and its business would suffer.

PayPal has a limited operating history and may not continue to be profitable. If PayPal were unable to maintain profitability, its stock price would decline.

Changes to credit card association rules or practices could negatively affect PayPal s service and, if it does not comply with the rules, could result in a termination of PayPal s ability to accept credit cards. If PayPal were unable to accept credit cards, its competitive position would be seriously damaged.

PayPal relies on financial institutions, including several current or potential competitors, to process its payment transactions. Should any of these institutions decide to stop processing PayPal s payment transactions, its business could suffer.

Customer complaints or negative publicity about PayPal s customer service could affect use of its product adversely and, as a result, PayPal s business could suffer.

PayPal may experience breakdowns in its payment processing system that could damage customer relations and expose PayPal to liability, which could affect adversely its ability to provide reliable service.

PayPal relies on its customers for distribution of its product, and this method of distribution may not meet its goals. If PayPal s customers stop using its product, PayPal s business would suffer.

PayPal s inability to manage growth could affect its business adversely and harm its ability to become profitable.

PayPal s quarterly operating results fluctuate and may not predict its future performance accurately. Variability in PayPal s future performance could cause its stock price to fluctuate and decline.

PayPal may not protect its proprietary technology effectively, which would allow competitors to duplicate its products. This would make it more difficult for PayPal to compete with them.

PayPal s product features may infringe claims of third-party patents, which could affect PayPal s business and profitability adversely.

PayPal has limited experience competing in international markets. PayPal s international expansion plans will expose it to greater political, intellectual property, regulatory, exchange rate fluctuation and other risks, which could harm its business.

These factors are not exhaustive. Other sections of this proxy statement/prospectus may include additional factors that could adversely impact PayPal s business and financial performance. Moreover, PayPal operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for PayPal s management to predict all risk factors, nor can PayPal assess the impact of all factors on PayPal s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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Risks Related to eBay and PayPal as a Combined Company After the Merger

The risks and uncertainties described below are not the only ones facing eBay and PayPal as a combined company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair the business operations of the combined company. If any of the following risks or such other risks actually occurs, our business could be harmed. When we use the terms we , us or our in this section of the proxy statement/ prospectus, we mean eBay and PayPal as the combined company after the completion of the merger.

Our Operating Results May Fluctuate.

The operating results of eBay and PayPal have varied on a quarterly basis. 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 quarterly operating results include the following:

- our ability to retain an active user base, to attract new users who list items for sale, who purchase items through our service or who pay for goods or services using our service and to maintain customer satisfaction;
- our ability to keep our websites operational and to manage the number of items listed on our service at a reasonable cost;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;
- foreign, federal, state or local government regulation, including investigations prompted by items improperly listed, sold or paid for by our users;
- the success of our geographical and product expansion;
- the introduction of new sites, services and products by us or our competitors;
- volume, size, timing and completion rate of trades on our websites;
- consumer willingness to consummate transactions with other users who are not known to them;
- consumer confidence in the safety and security of transactions on our websites;
- our ability to upgrade and develop our systems, infrastructure and customer service capabilities to accommodate growth at a reasonable cost;
- our ability to integrate successfully and cost effectively and manage our acquisitions, including the acquisition of PayPal;
- the cost and demand for advertising on our own websites;
- technical difficulties or service interruptions involving our websites or services provided to our users by third parties (such as photo hosting or payments);
- our ability to attract new personnel in a timely and effective manner;
- our ability to retain key employees in both our online businesses and our acquisitions, including key employees of PayPal;
- our ability to expand our product offerings involving fixed-price trading successfully;
- the costs and results of litigation that involves us;

the results of regulatory decisions that affect us;

the risks relating to the operations of PayPal described in this section, especially risks relating to fraud, regulatory and credit card association actions, litigation and transactions with merchants involved in online gambling activities;

- the timing, cost and availability of advertising in traditional media and on other websites and online services;
- the timing of payments to us and of marketing and other expenses under existing and future contracts;
- consumer trends and popularity of some categories of items;
- the success of our brand building and marketing campaigns;
- the continued financial strength of our commercial partners and technology suppliers;
- the level of use of the Internet and online services;
- increasing consumer acceptance of the Internet and other online services for commerce and, in particular, the trading of products such as those listed on our websites; and
- general economic conditions and those economic conditions specific to the Internet and e-commerce industries.

Our limited operating history and the increased variety of services offered on our websites make it difficult for us to forecast the level or source of our revenues or earnings accurately. 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 a substantial portion of our net revenues each quarter come from transactions for items that are listed and sold during that quarter. 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 eBay common stock would almost certainly decline.

We May Not Maintain Profitability.

We believe that our continued profitability will depend in large part on our ability to do the following:

- maintain sufficient transaction volume to attract buyers and sellers;
- manage the costs of our business, including the costs associated with maintaining and developing our websites, customer support and international and product expansion;
- increase our brand name awareness; and
- provide our customers with superior community and trading experiences.

We are investing heavily in marketing and promotion, customer support, further development of our websites, technology and operating infrastructure development. The costs of these investments are expected to remain significant into the future. In addition, many of our acquisitions require continuing investments in these areas and we have significant ongoing contractual commitments in some of these areas. 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. The existence of several larger and more established companies that are enabling online sales as well as other companies, some of whom do not charge for transactions on their sites and others who are facilitating trading through varied pricing formats (e.g., fixed-price, reverse auction, group buying) may limit our ability to raise user fees in response to declines in profitability. In addition, we are spending in advance of anticipated growth, which may also harm our profitability. In view of the rapidly evolving nature of our business and our limited operating history, we believe that period-to-period comparisons of our operating results are not necessarily meaningful. You should not rely upon our historical results as indications of our future performance.

Acquisitions Could Result in Dilution, Operating Difficulties and Other Harmful Consequences.

eBay has acquired a number of businesses, including Half.com, Internet Auction, iBazar, HomesDirect.com and NeoCom and, if the merger is completed, PayPal. eBay expects 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, including interests in eBay s existing subsidiaries and joint ventures. At any given time eBay may be engaged in discussions or negotiations with respect to one or more of such transactions. Any of such transactions could be material to eBay s financial condition and results of operations. There is no assurance that any such discussions or negotiations will result in the consummation of any transaction.

The process of integrating any acquisition, including the acquisition of PayPal, may create unforeseen operating difficulties and expenditures and is itself risky. The areas where we may face difficulties include:

- diversion of management time at both companies during the period of negotiation through closing and further diversion of such time after closing, as well as a shift of focus from operating the businesses to issues of integration and future products;
- declining employee morale and retention issues resulting from changes in compensation, 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; and
- in some cases, the need to transition operations onto the existing eBay platform.

Prior to the four acquisitions eBay made in the second quarter of 1999, eBay had almost no experience in managing this integration process. Many of the acquisitions made to date have involved either family-run companies or very early stage companies, which may worsen these integration issues. Foreign acquisitions involve special risks, including those related to integration of operations across different cultures, currency risks and the particular economic and regulatory risks associated with specific countries. Moreover, the anticipated benefits of any or all of our acquisitions may not be realized. Future acquisitions or mergers could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could harm our business. Future acquisitions or mergers may require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all. Even if available, this financing may be dilutive.

A Successful Integration of PayPal May Be Difficult.

While eBay has acquired smaller companies in the past, the acquisition of PayPal represents by far the largest acquisition by eBay to date. We expect that the process of integrating PayPal s business into the eBay platform will be relatively difficult and will require significant attention from management. This may divert management s attention from its focus on eBay s principal business for an extended period of time. In addition, following the merger PayPal would continue to operate as an independent wholly-owned subsidiary of eBay with its own management. Because PayPal will be relatively independent, efficient cooperation between eBay and PayPal following the merger will be crucial for a successful integration of PayPal s business into the eBay platform. In order to facilitate the integration of PayPal into eBay, we entered into employment agreements with certain key employees of PayPal pursuant to which these key employees have agreed to remain employed with PayPal for specified time periods. However, there can be no assurance that these key employees will not terminate their employment with PayPal before the expiration of their employment agreements or agree to continued employment with PayPal after the expiration of their employment agreements. For a more detailed discussion of the specific employment terms of these employment agreements, see Other Material Agreements Relating to the Merger eBay Employment Agreements beginning on page 96. There can be no assurance that PayPal s business will be integrated into the eBay platform in a timely and efficient manner or that any of the anticipated benefits of the merger, including those described in the section entitled The Merger eBay s Reasons for the

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Merger , will be realized. Failure to do so could materially harm the business and operating results of the combined company.

There Are Many Risks Associated with Our International Operations.

In 1999, we acquired alando.de.ag, a leading online German trading platform, and began operations in the United Kingdom and, through a joint venture, in Australia. In the first quarter of 2000, we expanded into Japan and formally launched our localized Canadian operations. In October 2000, we launched our French site. In January 2001, we launched our Italian site. In February 2001, we completed our acquisition of a majority interest in Internet Auction, and in May 2001, we completed our acquisition of iBazar, a French company with online trading operations in eight countries, primarily in Europe. In April 2002, we completed our acquisition of NeoCom in Taiwan. In addition, we intend to expand PayPal s business in selected international markets which will subject PayPal to more risk relating to international operations. Expansion into international markets requires management attention and resources. We have limited experience in localizing our service to conform to local cultures, standards and policies. In most countries, we will have to compete with local companies who understand the local market better than we do. We may not be successful in expanding into particular international markets or in generating revenues from foreign operations. For example, we recently withdrew from the Japanese market. Even if we are successful, the costs of operating new sites are expected to exceed our net revenues for at least 12 months in most countries. As we continue to expand internationally, we are subject to risks of doing business internationally, including the following:

- regulatory requirements, including regulation of auctioneering, banking and money transmitting, that may limit or prevent the offering of our services in local jurisdictions, may prevent enforceable agreements between sellers and buyers, may prohibit certain categories of goods, may require special licensure or may limit the transfer of information between our foreign subsidiaries and ourselves;
- legal uncertainty regarding liability for the listings of our users, including less Internet-friendly legal systems, unique local laws and lack of clear precedent or applicable law;
- difficulties in staffing and managing foreign operations;
- longer payment cycles, different accounting practices and problems in collecting accounts receivable;
- local taxation of our fees or of transactions on our websites;
- higher telecommunications and Internet service provider costs;
- strong local competitors;
- more stringent consumer and data protection laws;
- cultural non-acceptance of online trading;
- seasonal reductions in business activity;
- potentially adverse tax consequences;
- expenses associated with localizing our products, including offering customers the ability to transact business in major currencies in addition to the U.S. dollar;
- laws and business practices that favor local competitors;
- foreign currency restrictions and exchange rate fluctuations;
- changes in a specific country s or region s political or economic conditions; and
- differing intellectual property laws.

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Some of these factors may cause our international costs to exceed our domestic costs of doing business. To the extent 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 risks relating to foreign currency exchange rate fluctuations.

Disputes Between Our South Korean Subsidiary, Internet Auction, and Credit Card Companies May Harm Our Operations in South Korea.

The South Korean credit card companies providing payment services to our majority-owned South Korean subsidiary, Internet Auction, have experienced higher than anticipated delinquency rates on transactions carried out on the Internet Auction platform. Some of these delinquencies are related to fictitious transactions on Internet Auction and other South Korean Internet sites to enable users to receive cash advances on their credit cards that would not otherwise be permitted by the credit card companies. As of June 30, 2002, these credit card companies were withholding approximately 1.2 billion Won (about $1.0 million) as collateral against certain delinquent accounts, and had threatened to terminate their agreements with Internet Auction if matters were not resolved to their satisfaction. Internet Auction is currently in negotiations with the major credit card companies in South Korea to resolve this situation. Since the spring of 2001, Internet Auction has been implementing certain user verification and improved site-monitoring processes that it believes have substantially reduced this type of credit card misuse on its system. Due to the demands made by two credit card companies, Internet Auction entered into new agreements with these companies that could shift the risk of credit card misuse, nonpayment or chargeback by the purchaser to Internet Auction and formalize the ability of the credit card companies to withhold collateral against future delinquencies. The termination of its agreements with the credit card companies would adversely affect Internet Auction s business and could adversely impact eBay s business. Further, any settlement related to past transactions could adversely affect Internet Auction s results of operations. Certain legislation recently enacted by the Korean National Assembly could make Internet Auction liable for credit card misuses by its users. If Internet Auction becomes liable for credit card misuse or payment delinquency by its users, Internet Auction may have to change its procedures and processes relating to payments, accept higher losses, or both, which could adversely affect its business and could thereby adversely affect our business.

Our Revenues from Third-Party Advertising and End-to-End Services Are Subject to Factors Beyond Our Control and Are Expected to Decrease.

We are receiving revenues from end-to-end service providers and direct advertising promotions. These revenues may be affected by the financial condition of the parties with whom we have these relationships and by the success of online promotions generally. Recently, the pricing of online advertisements has deteriorated. Our direct advertising revenues are dependent in significant part on the performance of AOL s sales force, over which we do not have control. Reduction in these revenues, whether due to the softening of the demand for online advertising in general or particular problems facing parties with whom we have commercial relationships, would adversely affect our results. At this time, we expect such revenues to decrease on an absolute basis in 2002 relative to 2001.

Problems with Third Parties Who Provide Services to Our Users Could Harm Us.

A number of third parties provide services to our users, which indirectly benefit us. Such services include seller tools that automate and manage listings, merchant tools that manage listings and interface with inventory management software, photo hosting, payment processing and other services. In many cases we have contractual agreements with these companies, which may give us a direct financial interest in their success, while in other cases we have none. In either circumstance, financial, regulatory or other problems that prevent these companies from providing services to our users could reduce the number of listings on our websites or make completing transactions on our websites more difficult, and thereby harm our business.

Our Failure to Manage Growth Could Harm Us.

We currently are experiencing a period of expansion in our headcount, facilities and infrastructure, and we anticipate that further expansion will be required to address potential growth in our customer base and number of listings as well as our expansion into new geographic areas, types of goods and alternative methods of sale. 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:

The Websites. We must constantly add new hardware, update software and add new engineering personnel to accommodate the increased use of our and our subsidiaries websites and the new products and features we are regularly introducing. This upgrade process is expensive, and the increased complexity of our websites increases the cost of additional enhancements. If we are unable to increase the capacity of our systems at least as fast as the growth in demand for this capacity, our websites may become unstable and may cease to operate for periods of time. We have commenced a significant multi-year project to enhance our current technical architecture. If this project is not successful, our business could be harmed. We have experienced periodic unscheduled downtime. Continued unscheduled downtime would harm our business and also could anger users of our websites and reduce future revenues.

Customer Support. We are expanding our customer support operations to accommodate the increased number of users and transactions on our websites and the increased level of trust and safety activity we provide worldwide. If we are unable to provide these operations in a cost-effective manner, users of our websites may have negative experiences, and current and future revenues could suffer, or our operating margins may decrease.

Customer Accounts. Our revenues are dependent on prompt and accurate billing processes. If we are unable to grow our transaction processing abilities to accommodate the increasing number of transactions that must be billed, our ability to collect revenue will be harmed.

We must continue to hire, train and manage new employees at a rapid rate. If our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful 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. We may be unable to hire, train, retain and manage required personnel or to identify and take advantage of existing and potential strategic relationships and market opportunities. The additional headcount and capital investments we are adding increases our cost base, which will make it more difficult for us to offset any future revenue shortfalls by offsetting expense reductions in the short term.

Our Business May Be Harmed by the Listing or Sale by Our Users of Illegal Items.

The law relating to the liability of providers of online services for the activities of their users on their service is currently unsettled. We are aware that certain goods, such as firearms, other weapons, adult material, tobacco products, alcohol and other goods that may be subject to regulation by local, state or federal authorities, have been listed and traded on our service. We may be unable to prevent the sale of unlawful goods, or the sale of goods in an unlawful manner, by users of our service, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by users through our service. We have been subject to several lawsuits based upon such allegations. In order to reduce our exposure to this liability, we have prohibited the listing of certain items and increased the number of personnel reviewing questionable items. In the future, we may implement other protective measures that could require us to spend substantial resources and/or to reduce revenues by discontinuing certain service offerings. Any costs incurred as a result of liability or asserted liability relating to the sale of unlawful goods or the unlawful sale of goods, could harm our business. In addition, we have received significant and continuing media attention relating to the listing or sale of unlawful goods on our websites. This negative publicity could damage our reputation and diminish the value of our brand name. It also could make users reluctant to continue to use our services.

We Are Subject to Intellectual Property and Other Litigation.

On April 25, 2000, we were served with a lawsuit, Gentry et al. v. eBay, Inc. et al., filed in Superior Court in San Diego, California. The lawsuit was filed on behalf of a purported class of eBay users who purchased allegedly forged autographed sports memorabilia on eBay. The lawsuit claims we were negligent in permitting certain named (and other unnamed) defendants to sell allegedly forged autographed sports memorabilia on eBay. In addition, the lawsuit claims we violated California unfair competition law, and a section of the California Civil Code which prohibits dealers from selling sports memorabilia without a Certificate of Authenticity. The lawsuit seeks class action certification, compensatory damages, a civil penalty of ten times actual damages, interest, costs and fees and injunctive relief. On January 26, 2001, the court issued a ruling dismissing all claims against us in the lawsuit. The court ruled that our business falls within the safe harbor provisions of 47 USC 230, which grants Internet service providers such as eBay immunity from state claims based on the conduct of third parties. The court also noted that we were not a dealer under California law and thus not required to provide certificates of authenticity with autographs sold over our site by third parties. The plaintiffs appealed this ruling. A hearing on the plaintiff s appeal of this ruling was held on April 10, 2002 and the appeals court upheld the trial court s decision in our favor on June 26, 2002.

On April 25, 2001, our European subsidiaries, eBay GmbH and eBay International AG, were sued by Montres Rolex S.A. and certain Rolex affiliates, or Rolex, in the regional court of Cologne, Germany. The suit has been moved to the regional court in Dusseldorf, Germany and is scheduled to be heard in September 2002. Rolex alleged that our subsidiaries were infringing Rolex s trademarks as a result of users selling counterfeit Rolex watches through our German website. The suit also alleges unfair competition. Rolex is seeking an order forbidding the sale of Rolex watches on the website as well as damages. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

On September 26, 2001, a complaint was filed by MercExchange LLC against us, our Half.com subsidiary and ReturnBuy, Inc. in the Eastern District of Virginia (No. 2:01-CV-736) alleging infringement of three patents (relating to online auction technology, multiple database searching and electronic consignment systems) and seeking a permanent injunction and damages (including treble damages for willful infringement). We have answered this complaint, denying the allegations, and, in April 2002, filed four motions for summary judgment with respect to various aspects of the case. On July 10, 2002, the court ruled that there are triable issues of fact with respect to two of our summary judgment motions and denied them, while postponing consideration of our remaining two motions. Trial is now scheduled for November 12, 2002. We believe that we have meritorious defenses and intend to defend ourselves vigorously. However, even if successful, our defense against this action will be costly and could divert our management s time. If the plaintiff were to prevail on any of its claims, we might be forced to pay significant damages and licensing fees, modify our business practices or even be enjoined from practicing a significant part of our U.S. business. Any such results could materially harm our business.

On August 16, 2002, Charles E. Hill & Associates, Inc., or Hill, filed a lawsuit in the U.S. District Court for the Eastern District of Texas (No. 2:02-CV-186) alleging that we and 17 other companies, primarily large retailers, infringed three patents owned by Hill relating to electronic catalog systems and methods for producing data at a remote location, updating that data and displaying that data. The suit seeks an injunction against continuing infringement, unspecified damages, including trebled damages for willful infringement, and interest, costs, expenses and fees. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In connection with the proposed acquisition of PayPal, three purported class action complaints have been filed in the Court of Chancery in the State of Delaware in and for New Castle County by alleged stockholders of PayPal. Two additional purported class action complaints have been filed in the Superior

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Court of the State of California, County of Santa Clara, by alleged PayPal stockholders. These complaints name as defendants PayPal and each member of its board of directors as well as eBay. The complaints are purported class actions that allege, among other things, that eBay controls PayPal, the defendants have breached fiduciary duties they assertedly owed to PayPal s stockholders in connection with PayPal entering into the merger agreement and the exchange ratio is unfair and inadequate. The plaintiffs in each lawsuit seek, among other things, an injunction against the consummation of the merger and an award of unspecified compensatory damages. We believe that each of the lawsuits is without merit and intend to defend ourselves vigorously.

PayPal has been sued for patent infringement, including a suit by Tumbleweed Communications Corporation that is currently ongoing. If all or any portion of PayPal s service were found to infringe a patent, we could be required to restructure our payment system, stop offering PayPal s payment product altogether, or pay substantial damages or license fees to third party patent owners.

Other third parties have from time to time claimed, and others may claim in the future that we have infringed their past, current or future intellectual property rights. We have in the past been forced to litigate such claims. We may become more vulnerable to such claims as the courts interpret laws such as the Digital Millennium Copyright Act and as we expand into jurisdictions where the underlying laws with respect to the potential liability of online intermediaries like ourselves is less favorable. We expect that we will increasingly be subject to copyright and trademark infringement claims as the geographical reach of our services expands. We also expect that we will increasingly be subject to patent infringement claims as our services expand. We have been notified of several potential disputes. These claims, whether meritorious or not, could be time-consuming, result in costly litigation, cause service upgrade delays, require expensive changes in our methods of doing business or could require us to enter into costly royalty or licensing agreements, if available. As a result, these claims could harm our business.

Our Business May Be Harmed by the Listing or Sale by Our Users of Pirated or Counterfeit Items.

We have received in the past, and we anticipate we will receive in the future, communications alleging that certain items listed or sold through our service by our users infringe third-party copyrights, trademarks and tradenames or other intellectual property rights. Although we have sought to work actively with the content community to eliminate infringing listings on our websites, some content owners have expressed the view that our efforts are insufficient. Content owners have been active in defending their rights against online companies, including eBay. Allegations of infringement of third-party intellectual property rights have in the past and may in the future result in litigation against us. Such litigation is costly for us, could result in increased costs of doing business through adverse judgment or settlement, could require us to change our business practices in expensive ways, or could otherwise harm our business. Litigation against other online companies could result in interpretations of the law that could also require us to change our business practices or otherwise increase our costs.

Our Business May Be Harmed by Fraudulent Activities on Our Websites.

Our future success will depend largely upon sellers reliably delivering and accurately representing their listed goods and buyers paying the agreed purchase price. We have received in the past, and anticipate that we will receive in the future, communications from users who did not receive the purchase price or the goods that were to have been exchanged. In some cases, individuals have been arrested and convicted for fraudulent activities using our websites. While we can suspend the accounts of users who fail to fulfill their delivery obligations to other users, we do not have the ability to require users to make payments or deliver goods or otherwise make users whole other than through our limited buyer protection programs. Other than through these programs, we do not compensate users who believe they have been defrauded by other users. We also periodically receive complaints from buyers as to the quality of the goods purchased. Negative publicity generated as a result of fraudulent or deceptive conduct by users of our service could damage our reputation and diminish the value of our brand name. We expect to continue to receive requests from users requesting reimbursement or threatening or commencing legal action against us if no reimbursement is made. Our liability for these sorts of claims is only beginning to be clarified and may be

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higher in some non-U.S. jurisdictions than it is in the U.S. This sort of litigation could be costly for us, divert management attention, result in increased costs of doing business, lead to adverse judgments or could otherwise harm our business. In addition, affected users will likely complain to regulatory agencies who could take action against us, including imposing fines or seeking injunctions.

Government Inquiries May Lead to Charges or Penalties.

On January 29, 1999, we received initial requests to produce certain records and information to the federal government relating to an investigation of possible illegal transactions in connection with our websites. We were informed that the inquiry includes an examination of our practices with respect to these transactions. We have continued to provide further information in connection with this ongoing inquiry. In order to protect the investigation, the court has ordered that no further public disclosures be made with respect to the matter.

On August 20, 2002, PayPal reached an agreement with the Attorney General of the State of New York in the state s inquiry into payments made through PayPal s service to online gambling merchants. In an assurance of discontinuance made to the New York Attorney General, PayPal agreed to cease processing payments from its New York members to online gambling merchants by September 1, 2002. PayPal took this action in voluntary cooperation with the New York Attorney General and did not admit to a violation of law. The New York Attorney General has agreed to accept PayPal s assurance of discontinuance in lieu of commencing a statutory proceeding. PayPal also agreed to pay $200,000 to the State of New York in penalties, disgorged profits and to cover the New York Attorney General s costs of investigation.

PayPal has received federal grand jury subpoenas issued at the request of the United States Attorney for the Eastern District of Missouri. These subpoenas seek the production of documents related to online gambling activities. PayPal intends to cooperate fully with the United States Attorney s office in this matter.

Should these or any other investigations lead to civil or criminal charges against us, we would likely be harmed by negative publicity, the costs of litigation, the diversion of management time and other negative effects, even if we ultimately prevail. Our business would suffer if we were not to prevail in any actions like these. Even the process of providing records and information can be expensive, time consuming and result in the diversion of management attention.

A large number of transactions occur on our websites. We believe that government regulators have received a substantial number of consumer complaints about us, which, while small as a percentage of our total transactions, are large in aggregate numbers. As a result, we have from time to time been contacted by various foreign, federal, state and local regulatory agencies and been told that they have questions with respect to the adequacy of the steps we take to protect our users from fraud. We are likely to receive additional inquiries from regulatory agencies in the future, which may lead to action against us. We have responded to all inquiries from regulatory agencies by describing our current and planned antifraud efforts. If one or more of these agencies is not satisfied with our response to current or future inquiries, the resultant investigations and potential fines or other penalties could harm our business.

We are subject to laws relating to the use and transfer of personally identifiable information about our users and their transfers, especially outside of the U.S. Violation of these laws, which in many cases apply not only to third-party transfers but also to transfers of information between ourselves and our subsidiaries, and between ourselves, our subsidiaries and our commercial partners could subject us to significant penalties and negative publicity and could adversely affect us.

Third Parties or Governmental Agencies May View Our Behavior as Anti-Competitive.

Third parties, including PayPal, have in the past and may in the future allege that actions taken by us violate the antitrust or competition laws of the U.S. or other countries, or otherwise constitute unfair competition. Such claims typically are very expensive to defend, involve negative publicity and diversion of management time and effort and could result in significant judgments against us, all of which would adversely affect us.

We have provided information to the Antitrust Division of the Department of Justice in connection with an inquiry into our conduct with respect to auction aggregators including our licensing program and a previously settled lawsuit against Bidder s Edge. Although the Antitrust Division has closed this inquiry, if the Department of Justice or any other antitrust agency were to open other investigations of our activities, we would likely be harmed by negative publicity, the costs of the action, possible private antitrust lawsuits, the diversion of management time and effort and penalties we might suffer if we ultimately were not to prevail.

Some of Our Businesses Are Subject to Regulation and Others May Be in the Future.

As our activities and the types of goods listed on our site expand, state regulatory agencies may claim that we are subject to licensure in their jurisdiction, either with respect to our services in general, or in order to sell certain types of goods (e.g., real estate, boats, automobiles). We are currently subject to potential regulation under the Office of Banks and Real Estate, or OBRE, in Illinois concerning the applicability of the Illinois auction law to our services. In August 2002, Illinois amended the Illinois auction law to provide for a special regulatory regime for Internet auction listing services . We expect to register as an Internet auction listing service in Illinois following the adoption of regulations under the amended statute. Although we do not expect this registration to have a negative impact on our business, other regulatory and licensure claims could result in costly litigation or could require us to change our manner of doing business in ways that increase our costs or reduce our revenues or force us to prohibit listings of certain items for some locations. We could also be subject to fines or other penalties. Any of these outcomes could harm our business.

As we have expanded internationally, we have become subject to additional regulations, including regulations on the transmission of personal information. These laws may require costly changes to our business practices. If we are found to have violated any of these laws, we could be subject to fines or penalties, and our business could be harmed.

Kruse is subject to regulation in some jurisdictions governing the manner in which live auctions are conducted. It is required to obtain licenses in these jurisdictions with respect to its business or to permit the sale of specific categories of items (e.g., automobiles and real estate). These licenses generally must be renewed regularly and are subject to revocation for violation of law, violation of the regulations governing auctions in general or the sale of the particular item and other events. If Kruse were unable to renew a license or had a license revoked, its business would be harmed. In addition, changes to the regulations or the licensure requirements could increase the complexity and the cost of doing auctions, thereby harming us.

Until Billpoint s operations are phased out, Billpoint will be subject to many of the risks relating to PayPal which are described under Risks Related to PayPal s Business Prior to and After the Merger beginning on page 50.

Our Business May Be Subject to Sales and Other Taxes.

We do not collect sales or other similar taxes on goods or services sold by users through our service. One or more states or any foreign country may seek to impose VAT or sales or use tax collection or record-keeping obligations on companies such as ours that engage in or facilitate online commerce. Such taxes could be imposed if, for example, we were ever deemed to be an auctioneer or the agent of our sellers. Several proposals have been made at the state and local level that would impose additional taxes on the sale of goods and services through the Internet. These proposals, if adopted, could substantially impair the growth of e-commerce, and could diminish our opportunity to derive financial benefit from our activities. In 1998, the U.S. federal government enacted legislation prohibiting states or other local authorities from imposing new taxes on Internet commerce for a period of three years, which has been extended through November 1, 2003. This moratorium does not prohibit states or the Internal Revenue

Service from collecting taxes on our income, if any, or from collecting taxes that are due under existing tax rules. New regulations in the European Union relating to the collection of VAT on digital services might require us to collect and remit VAT on our own fees beginning in July 2003. We intend to work with the relevant taxing authorities to clarify our obligations under these regulations. A successful assertion by one or more states or any foreign country that we should collect sales or other taxes on the exchange of merchandise on our system would harm our business.

We Are Subject to Risks Associated with Information Disseminated Through Our Service.

The law relating to the liability of online services companies for information carried on or disseminated through their services is currently 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 upon us under a number of these theories have been brought against us. In addition, federal, state and foreign legislation has been proposed that imposes liability for or prohibits 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, it is possible that a claim of defamation or other injury could be made against us for content posted in the Feedback Forum. Claims like these are more likely to arise and have a higher probability of success in jurisdictions outside the U.S. 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. This may require us to expend substantial resources and/or to discontinue 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 harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this liability or asserted liability could harm our business.

The Inability to Expand Our Systems May Limit Our Growth.

We seek to generate a high volume of traffic and transactions on our services. The satisfactory performance, reliability and availability of our websites, processing systems and network infrastructure are critical to our reputation and our ability to attract and retain large numbers of users. Our revenues depend primarily on the number of items listed by users, the volume of user transactions that are successfully completed and the final prices paid for the items listed. We need to expand and upgrade our technology, transaction processing systems and network infrastructure both to meet increased traffic on our site and to implement new features and functions, including those required under our contracts with third parties. We may be unable to project accurately the rate or timing of increases, if any, in the use of our services or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely fashion.

We use internally developed systems to operate our service for transaction processing, including billing and collections processing. We must continually improve these systems in order to accommodate the level of use of our websites. In addition, we may add new features and functionality to our services that would result in the need to develop or license additional technologies. We capitalize hardware and software costs associated with this development in accordance with generally accepted accounting principles and include such amounts in property and equipment. Our inability to add additional software and hardware or to upgrade our technology, transaction processing systems or network infrastructure to accommodate increased traffic or transaction volume could have adverse consequences. These consequences include unanticipated system disruptions, slower response times, degradation in levels of customer support, impaired quality of the users experiences of our service and delays in reporting accurate financial information. Our failure to provide new features or functionality also could result in these consequences. We may be unable to effectively upgrade and expand our systems in a timely manner or to integrate smoothly any newly developed or purchased technologies with our existing systems. These difficulties could harm or limit our ability to expand our business.

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Unauthorized Break-ins or Other Assaults on Our Service Could Harm Our Business.

Our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data, public release of confidential data or the inability to complete customer transactions. In addition, unauthorized persons may improperly access our data. We have experienced an unauthorized break-in by a hacker who has stated that he could, in the future, damage or change our system or take confidential information. We have also experienced denial of service type attacks on our system that have made all or portions of our websites unavailable for periods of time. These and other types of attacks could harm us. Actions of this sort may be very expensive to remedy and could damage our reputation and discourage new and existing users from using our service.

System Failures Could Harm Our Business.

Our system has been designed around industry standard architectures to reduce downtime in the event of outages or catastrophic occurrences. The eBay service provides 24-hours-a-day, seven-days-a-week availability, subject to a maintenance period during one night each week. PayPal also provides 24-hours-a-day, seven-days-a-week availability, subject to scheduled maintenance interruptions. Substantially all of our system hardware is hosted at the Exodus facilities in Santa Clara, California, the Qwest Communications facilities in Sunnyvale, California, and the Sprint Communications facilities located near Sacramento, California, each of which provides redundant communications lines and emergency power backup. PayPal depends on two third parties, Equinix and Exodus, for co-location of its data servers and relies upon these third parties for the physical security of its servers. PayPal s servers currently reside in Equinix s facilities in San Jose, California and Exodus facilities in Santa Clara, California. Our systems and operations are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial of service attacks and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism and to potential disruption if the operators of these facilities have financial difficulties. In early 2002, Cable and Wireless plc acquired substantially all of Exodus data center assets under Exodus Chapter 11 bankruptcy proceedings. We expect that these data center assets, now owned by Cable and Wireless plc, will continue to be branded using the Exodus name. We do not maintain fully redundant systems or alternative providers of hosting services, and we do not carry business interruption insurance sufficient to compensate us for losses that may occur. Despite any precautions we may take, the occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at any of the Exodus, Qwest, Sprint or Equinix facilities could result in lengthy interruptions in our services. In addition, the failure by Exodus, Qwest, Sprint or Equinix to provide our required data communications capacity could result in interruptions in our service. Any damage to or failure of our systems could result in interruptions in our service. Interruptions in our service will reduce our revenues and profits, and our future revenues and profits will be harmed if our users believe that our system is unreliable.

We have experienced system failures from time to time. eBay s primary website has been interrupted for periods of up to 22 hours. In addition to placing increased burdens on our engineering staff, these outages create a flood of user questions and complaints that need to be addressed by our customer support personnel. Any unscheduled interruption in our service results in an immediate loss of revenues that can be substantial and may cause some users to switch to our competitors. If we experience frequent or persistent system failures, our reputation and brand could be permanently harmed. We have been taking steps to increase the reliability and redundancy of our system. These steps are expensive, reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

Our infrastructure could prove unable to handle a larger volume of customer transactions. Any failure to accommodate transaction growth could impair customer satisfaction, lead to a loss of customers, impair our ability to add customers or increase its costs, all of which would harm our business.

Because our customers may use our products for critical transactions, any errors, defects or other infrastructure problems 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.

The Price of eBay Common Stock Has Been and May Continue to Be Extremely Volatile.

The trading price of eBay common stock has been and is likely to be extremely volatile. The price of eBay common stock could be subject to wide fluctuations in response to a variety of factors, including the following:

- actual or anticipated variations in our quarterly operating results;
- unscheduled system downtime;
- additions or departures of key personnel;
- announcements of technological innovations or new services by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in the Internet and online commerce industries;
- changes in the market valuations of other Internet companies;
- developments in regulation;
- events affecting our proposed acquisition of PayPal or PayPal s business;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- unanticipated economic or political events;
- sales of eBay common stock or other securities in the open market;
- the adverse effect of arbitrage activities in connection with the merger, including the sale of eBay common stock by persons who simultaneously purchase PayPal common stock; and
- other events or factors, including those described in this Risk Factors section and elsewhere in this proxy statement/ prospectus, that may be beyond our control.

In addition, the trading prices of Internet stocks in general, and ours in particular, have experienced extreme price and volume fluctuations in recent periods. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. Notwithstanding a sharp decline in the prices of Internet stocks in general, the valuation of our stock remains extraordinarily high based on conventional valuation standards such as price-to-earnings and price-to-sales ratios. The trading price of our common stock has increased enormously from the initial public offering price. This trading price and valuation may not be sustained. Negative changes in the public s perception of the prospects of Internet or e-commerce or technology companies have in the past and may in the future depress eBay s stock price regardless of our results. Other broad market and industry factors may decrease the market price of eBay common stock, regardless of our operating performance. Market fluctuations, as well as general political and economic conditions, such as recession or interest rate or currency rate fluctuations, also may decrease the market price of eBay common stock. In the past, following declines in the market price of a company s securities, securities class-action litigation often has been instituted. Litigation of this type, if instituted, could result in substantial costs and a diversion of management s attention and resources.

New and Existing Regulations Could Harm Our Business.

We are subject to the same foreign, federal, state and local laws as other companies conducting business on the Internet. Today there are relatively few laws specifically directed towards online services. However, due to the increasing popularity and use of the Internet and online services, many laws relating to the Internet are being debated at the state and federal levels (both in the U.S. and abroad) and it is possible that laws and regulations will be adopted with respect to the Internet or online services. These laws and regulations could cover issues such as user privacy, freedom of expression, pricing, fraud, content and quality of products and services, taxation, advertising, intellectual property rights and information security. Applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy is uncertain. The vast 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 Digital Millennium Copyright Act and the European Union s Directives on Distance Selling and Electronic Commerce, are only beginning to be interpreted by the courts and their applicability and scope are, therefore, uncertain. In addition, numerous states and foreign jurisdictions, including the State of California, where our headquarters are located, have regulations regarding how auctions may be conducted and the liability of auctioneers in conducting such auctions. No final legal determination has been made with respect to the applicability of the California regulations to our business to date and little precedent exists in this area. Several states are considering imposing these regulations upon us or our users, which could harm our business. We are currently subject to potential regulation under the Office of Banks and Real Estate, or OBRE, in Illinois concerning the applicability of the Illinois auction law to our services. In August 2002, Illinois amended the Illinois auction law to provide for a special regulatory regime for Internet auction listing services . We expect to register as an Internet auction listing service in Illinois following the adoption of regulations under the amended statute. Although we do not expect this registration to have a negative impact on our business, other regulatory and licensure claims could result in costly litigation or could require us to change our manner of doing business in ways that increase our costs or reduce our revenues, or force us to prohibit listings of certain items for some locations. In addition, as the nature of the products listed by our users change, we may become subject to new regulatory restrictions, such as licensure as an auto dealer or real estate broker.

Several states have proposed, and Minnesota has recently passed, legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies. The Federal Trade Commission also has settled several proceedings regarding the manner in which personal information is collected from users and provided to third parties. Specific statutes intended to protect user privacy have been passed in many non-U.S. jurisdictions, including virtually every non-U.S. jurisdiction where we currently have a website. Compliance with these laws, given the tight integration of our systems across different countries and the need to move data to facilitate transactions amongst our users (e.g., to payment companies, shipping companies, etc.), is both necessary and difficult. Failure to comply could subject us to lawsuits, fines, statutory damages, adverse publicity and other losses that could harm our business. Changes to existing laws or the passage of new laws intended to address these issues could directly affect the way we do business or could create uncertainty on the Internet. This could reduce demand for our services, increase the cost of doing business as a result of litigation costs or increased service delivery costs, or otherwise harm our business. In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, foreign jurisdictions may claim that we are required to comply with their laws. For example, a French court has ruled that a U.S. website must comply with French laws regarding content. As we have expanded our international activities, we have become obligated to comply with the laws of the countries in which we operate. Laws regulating Internet companies outside of the U.S. may be less favorable than those in the U.S., giving greater rights to consumers, content owners and users. Compliance may be more costly or may require us to change our business practices or restrict our service offerings relative to those in the U.S. Our failure to comply with foreign laws could subject us to penalties ranging from criminal fines to bans on our ability to offer our services.

Our Business Has Been Seasonal.

Our results of operations historically have been somewhat seasonal in nature because many of our users reduce their activities on our websites during the Thanksgiving (in the U.S.) and Christmas holidays and with the onset of good weather. We have historically experienced our strongest quarter of online

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growth in our first fiscal quarter, although our shift to more practical items may cause our seasonal patterns to look more like a typical retailer. Seasonal or cyclical variations in our business may become more pronounced over time and may harm our results of operations in the future.

We Are Dependent on the Continued Growth of Online Commerce.

The business of selling goods over the Internet, particularly through online trading, is new and dynamic. Our future net revenues and profits will be substantially dependent upon the widespread acceptance of the Internet and online services as a medium for commerce by consumers. Rapid growth in the use of and interest in the Internet and online services is a recent phenomenon. This acceptance and use may not continue. Even if the Internet is accepted, concerns about fraud, privacy and other problems may mean that a sufficiently broad base of consumers will not adopt the Internet as a medium of commerce. In particular, our websites require users to make publicly available personal information that some potential users may be unwilling to provide. These concerns may increase as additional publicity over privacy issues on eBay or generally over the Internet increase. Market acceptance for recently introduced services and products over the Internet is highly uncertain, and there are few proven services and products. 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. If these consumers prove to be less active than our earlier users, and we are unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, our business could be adversely impacted.

We Are Dependent on Key Personnel.

Our future performance will be substantially dependent on the continued services of our senior management and other key personnel. Our future performance also will depend on our ability to retain and motivate our other officers and key personnel. The loss of the services of any of our executive officers or other key employees could harm our business. 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 our Chief Executive Officer has fully vested the vast majority of her equity incentives. Our new businesses are all dependent on attracting and retaining key personnel. The land-based auction businesses are particularly dependent on specialists and senior management because of the relationships these individuals have established with sellers who consign property for sale at auction. We have had some turnover of these personnel, and continued losses of these individuals could result in the loss of significant future business and would harm us. In addition, employee turnover and other labor problems frequently increase during the period following an acquisition as employees evaluate possible changes in compensation, culture, reporting relationships and the direction of the business. These labor issues may be more severe if employees receive no significant financial return from the acquisition transaction, as has been the case with several of our recent acquisitions. Such increased turnover could increase our costs and reduce our future revenues. 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, especially for engineers and other professionals, especially in the San Francisco Bay Area, 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 stock options they are to 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.

Terrorist Acts.

The September 11 terrorist attacks adversely affected our revenues and profits, particularly in the U.S. and in the weeks immediately following these attacks. Any further terrorist actions, whether in the U.S. or elsewhere, would likely adversely affect our business. In particular, any action that makes consumers less willing to purchase or receive goods from third parties they do not know could disproportionately and adversely affect our business.

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We Are Subject to the Risks of Owning Real Property.

In connection with the acquisitions of Kruse and Butterfields, eBay acquired real property including land, buildings and interests in partnerships holding land and buildings. In addition, PayPal owns approximately 22 acres of land near Omaha, Nebraska and has entered into an agreement to have a building constructed on this land. 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;

adverse changes in the value of these properties, due to interest rate changes, changes in the neighborhoods in which the properties are located, or other factors;

the possible need for structural improvements in order to comply with zoning, seismic, disability act or other requirements; and

possible disputes with tenants, partners or others.

Our Industry Is Intensely Competitive.

Depending on the category of product, we currently or potentially compete with a number of companies serving particular categories of goods as well as those serving 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 as the barriers to entry into these channels are relatively low, as current offline and new competitors can easily launch online sites at a nominal cost using commercially available software. Our broad-based competitors include the vast majority of traditional department, warehouse, discount and general merchandise stores, emerging online retailers, online classified services, and other shopping channels such as offline and online home shopping networks. These include most prominently: Wal-Mart, Kmart, Target, Sears, Macy s, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam s Club, Amazon.com, Buy.com, AOL.com, Yahoo! Shopping, MSN, QVC and Home Shopping Network/ HSN.com.

In addition, we face competition from local, regional and national specialty retailers and exchanges in each of our categories of products. For example:

Antiques: Christie s, Bonhams, eHammer, Sotheby s, Phillips (LVMH), antique dealers and sellers

Coins & Stamps: Collectors Universe, Heritage, US Mint, Bowers and Morena

Collectibles: Franklin Mint, Go Collect, Collectiblestoday.com, wizardworld.com, Russ Cochran Comic Art Auctions, All Star Auctions

Musical Instruments: Guitar Center/ Musicians Friend, Sam Ash, Mars Music, Gbase.com, Harmony-Central.com, musical instrument retailers

Sports Memorabilia: Beckett s, Collectors Universe, Mastro, Leylands, ThePit.com, Superior

Toys, Bean Bag Plush: Amazon.com, KB Toys, ZanyBrainy.com

Premium Collectibles: Christie s, Bonhams, DuPont Registry, Greg Manning Auctions, iCollector, Lycos/ Skinner Auctions, Millionaire.com, Phillips (LVMH), Sotheby s, other premium collectibles dealers and sellers

Automotive (used cars): Autobytel.com, AutoVantage.com, AutoWeb.com, Barrett-Jackson, California Classics, CarMax, Cars.com, CarsDirect.com, Collectorcartraderonline.com, Dealix, Dupont Registry, eClassics.com, Edmunds, Hemmings, imotors.com, TraderOnline, Trader Publishing, vehix.com, newspaper classifieds, used car dealers

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Books, Movies, Music: Amazon.com, Barnes & Noble, Barnesandnoble.com, Alibris.com, Blockbuster, BMG, Columbia House, Best Buy, CDNow, Express.com, Emusic.com, Tower Records/ Tower Records.com

Clothing and Accessories: Abercrombie.com, AE.com, Bluefly.com, Coldwater-Creek.com, Delias.com, Dockers.com, Eddie Bauer, FashionMall.com, The Gap, Gap Online, J. Crew, JCrew.com, LandsEnd.com, The Limited, LLBean.com, Macy s, The Men s Wearhouse, Payless.com, Ross, Urbanq.com, VictoriasSecret.com

Computers & Consumer Electronics: Amazon.com, Best Buy, Buy.com, Circuit City, CNET, CompUSA, Dell, Electronics Boutique, Fry s Electronics, Gamestop, Gateway, The Good Guys, Hewlett-Packard, MicroWarehouse, PC Connection, Radio Shack, Ritz Camera, Tech Depot, Tiger Direct, Tweeter Home Entertainment, uBid, Computer Discount Warehouse, computer, consumer electronics and photography retailers

Home & Garden: IKEA, Crate & Barrel, Home Depot, Pottery Barn, Ethan Allen, Frontgate, Burpee.com

Jewelry: Ashford.com, Mondera.com, Bluenile.com, Diamond.com, Macy s

Pottery & Glass: Just Glass, Pottery Auction, Pottery Barn, Go Collect, Pier 1 Imports, Restoration Hardware

Sporting Goods/Equipment: BassPro, Cabellas, dsports.com, Footlocker, Gear.com, Global Sports, golfclubexchange, MVP.com, Play It Again Sports, REI, Sports Authority, Sportsline.com

Tickets: Ticketmaster, Tickets.com, ticket brokers

Tool/Equipment/Hardware: Home Depot, HomeBase, Amazon.com, Ace Hardware, OSH

Business-to-Business: Ariba, BidFreight.com, Bid4Assets, BizBuyer.com, bLiquid.com, Buyer Zone, CloseOutNow.com, Commerce One, Concur Technologies, DoveBid, FreeMarkets, Iron Planet, labx.com, Oracle, Overstock.com, PurchasePro.com, RicardoBiz.com, Sabre, SurplusBin.com, Ventro, VerticalNet

Additionally, we face competition from various online commerce sites including: Amazon.com, Surplus Auction, uBid, Yahoo! Auctions and a large number of other regional and national companies engaged in consumer-to-consumer or business-to-consumer sales. Overseas, we face competition from similar channels in most countries and from a large number of regional and national online and offline competitors in each country. Different aspects of our fixed-priced business compete with the major Internet portals (AOL, MSN, Yahoo! and comparable companies outside the U.S.) as well as Amazon.com and others.

The principal competitive factors for eBay include the following:

ability to attract buyers;

volume of transactions and selection of goods;

customer service; and

brand recognition.

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

community cohesion and interaction;

system reliability;

reliability of delivery and payment;

website convenience and accessibility;

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- level of service fees; and
- quality of search tools.

Some current and potential competitors have longer company operating histories, larger customer bases and greater brand recognition in other business and Internet spaces than we do. Some of these competitors also have significantly greater financial, marketing, technical and other resources. Other online trading services may be acquired by, receive investments from, or enter into other commercial relationships with larger, 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. Increased competition may result in reduced operating margins, loss of market share and diminished value of our brand. Some of our competitors have offered services for free, and others may do this as well. We may be unable to compete successfully against current and future competitors.

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 could harm our business. For example, we have implemented a buyer protection program that generally insures items up to a value of $200, with a $25 deductible, for users with a non-negative feedback rating at no cost to the user. New technologies may increase the competitive pressures by enabling our competitors to offer a lower cost service. Some Internet-based applications that direct Internet traffic to certain websites may channel users to electronic-commerce services that compete with us.

Although we have established Internet traffic arrangements with several large online services and search engine companies, these arrangements may not be renewed on commercially reasonable terms. Even if these arrangements are renewed, they may not result in increased usage of our service. In addition, companies that control access to transactions through network access or Internet browsers could promote our competitors or charge us substantial fees for inclusion.

The market for PayPal s product is emerging, intensely competitive and characterized by rapid technological change. PayPal competes with existing on-line and off-line payment methods, including, among others:

- MoneyZap and BidPay offered by Western Union, a subsidiary of First Data;
- Yahoo! PayDirect offered by Yahoo!;
- c2it offered by Citigroup;
- Valid offered by CheckFree;
- email payment services offered by the U.S. Postal Service through CheckFree; and
- credit card merchant processors that offer their services to online merchants, including First Data, Concord EFS, Paymentech, VeriSign and Authorize.net.

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. For example, Citigroup s c2it has existing arrangements with AOL Time Warner and Microsoft. PayPal s competitors may respond to new or emerging technologies and changes in customer requirements faster and more effectively than PayPal. They may devote greater resources to the development, promotion and sale of products and services than PayPal, and they may offer lower prices. Some of these competitors have offered, and may continue to offer, their services for free in order to gain market share and PayPal may be forced to lower its prices in response. 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. If these competitors acquired significant market share, this could result in PayPal losing market share.

PayPal also competes with providers of traditional payment methods, particularly credit cards, checks, money orders and Automated Clearing House, or ACH, transactions. Associations of traditional financial institutions such as Visa, MasterCard and the National Automated Clearing House Association, or

NACHA, generally set the features of these payment methods. The associations have initiated programs to enhance the usability of these payment methods for online transactions and could lower fees charged to online merchants. Either of these changes could make it more difficult for PayPal to retain and attract customers.

Half.com competes directly with online and offline retailers in its product categories such as Amazon.com, as well as with traditional offline and online sellers of new and used books, videos and CDs, consumer electronics and other products. Kruse is subject to competition from numerous regional competitors. In addition, competition with Internet-based auctions may harm Kruse s land-based auction business.

Our Business Is Dependent on the Development and Maintenance of the Internet Infrastructure.

The success of our service 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. If the Internet continues to experience increased numbers of users, increased frequency of use or increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by increased number of users or bandwidth requirements or by viruses , worms and similar 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 as well as the level of traffic and the processing of transactions on our service.

Our Business Is Subject to Online Commerce Security Risks.

To succeed, online commerce and communications must provide a secure transmission of confidential information over public networks. Our security measures may not prevent security breaches. Our failure to prevent security breaches could harm our business. Currently, a significant number of our users authorize us to bill their credit card accounts directly for all transaction fees charged by us. PayPal and Billpoint users routinely provide credit card and other financial information. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication technology to effect secure transmission of confidential information, including customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect customer transaction data. A number of websites have reported breaches of their security. Any compromise of our security could harm our reputation and, therefore, our business. In addition, a party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. 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 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.

We Must Keep Pace with Rapid Technological Change to Remain Competitive.

Our competitive space is characterized by rapidly changing technology, evolving industry standards, frequent new service and product introductions and enhancements and changing customer demands. These characteristics are caused in part by the emerging and changing nature of the Internet. Our future success therefore will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to improve the performance, features and reliability of our service. Our

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failure to adapt to such changes would harm our business. New technologies, such as the development of a peer-to-peer personal trading technology, could adversely affect us. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or adapt our services or infrastructure.

We Need to Develop New Services, Features and Functions in Order to Expand.

We plan to expand our operations by developing new or complementary services, products or transaction formats or expanding the breadth and depth of services. We may be unable to expand our operations in a cost-effective or timely manner. Even if we do expand, we may not maintain or increase our overall acceptance. If we launch a new business or service that is not favorably received by consumers, it could damage our reputation and diminish the value of our brand. We anticipate that future services will include pre-trade and post-trade services.

We are pursuing strategic relationships with third parties to provide many of these services. Because we use third parties to deliver these services, we may be unable to control the quality of these services, and our ability to address problems if any of these third parties fails to perform adequately will be reduced. Expanding our operations in this manner also will require significant additional expenses and development, operations and other resources and will strain our management, financial and operational resources. The lack of acceptance of any new services could harm our business.

Our Growth Will Depend on Our Ability to Develop Our Brands.

We believe that eBay s historical growth has been largely attributable to word of mouth. Both eBay and PayPal have benefited from frequent and high visibility media exposure both nationally and locally. We believe that continuing to strengthen our brand will be critical to achieving widespread acceptance of our service. Promoting and positioning our brand will depend largely on the success of our marketing efforts and our ability to provide high quality services. In order to promote our brand, we will need to increase our marketing budget and otherwise increase our financial commitment to creating and maintaining brand loyalty among users. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses we incurred in building our brand. If we do attract new users to our service, they may not conduct transactions over our service on a regular basis. If we fail to promote and maintain our brand or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, our business would be harmed.

We May Be Unable to Protect or Enforce Our Own Intellectual Property Rights Adequately.

We regard the protection of our trademarks, copyrights, patents, domain names, trade dress and trade secrets as critical to our success. We aggressively protect our intellectual property rights by relying on a combination of trademarks, copyrights, patents, trade dress and trade secrets and through the domain name dispute resolution system. 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 nondisclosure agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. These contractual arrangements and the other steps taken by us to protect our intellectual property may not prevent misappropriation of our technology or deter independent third-party development of similar technologies. We pursue the registration of our domain names, trademarks and service marks in the U.S. and internationally. Effective trademark, copyright, patent, trade dress, trade secret and domain name protection is very expensive to maintain and may require litigation. Protection may not be available in every country in which our services are made available online. Furthermore, we must also protect our trademarks, patents and domain names in an increasing number of jurisdictions, a process that is expensive and may not be successful in every location. 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 third parties. These licensees may take actions that might diminish the value of our proprietary rights or harm our reputation. We also rely on certain technologies that we license from third parties, such as Oracle Corporation, IBM, Microsoft, Sun Microsystems, Inc.

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and Veritas Software. These third-party technology licenses may not continue to be available to us on commercially reasonable terms. The loss of these technologies could require us to obtain substitute technologies of lower quality or performance standards or at greater cost.

Customer Complaints or Negative Publicity About Our Customer Service Could Affect Use of Our Services Adversely and, as a Result, Our Business Could Suffer.

Customer complaints or negative publicity about our customer service could diminish severely consumer confidence in and use of our services. Breaches of our customers privacy and our security measures could have the same effect. Measures we sometimes take to combat risks of fraud and breaches of privacy and security can damage relations with our customers. These measures heighten the need for prompt and accurate customer service to resolve irregularities and disputes. PayPal has received negative media coverage, as well as public criticism regarding customer disputes. Effective customer service requires significant personnel expense, and this expense, if not managed properly, could impact our profitability significantly. Any inability by us to manage or train our customer service 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.

Our Offline Auction Business Needs to Continue to Acquire Auction Properties.

The business of Kruse is dependent on the continued acquisition of high quality auction properties from sellers. Its future success will depend in part on its ability to maintain an adequate supply of high quality auction property, particularly collectible automobiles. There is intense competition for these pieces with other auction companies and dealers. In addition, a small number of key senior management and specialists maintain the relationships with the primary sources of auction property and the loss of these individuals could harm the business of Kruse.

Some Anti-Takeover Provisions May Affect the Price of eBay Common Stock.

The 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 eBay common stock may be harmed by the rights of 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 third-party to acquire a majority of our outstanding voting stock. 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 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.

Risks Related to PayPal s Business Prior to and After the Merger

PayPal Faces Significant Risks of Loss Due to Fraud and Disputes Between Senders and Recipients. If PayPal Is Unable to Deal Effectively with Losses from Fraudulent Transactions, PayPal s Losses from Fraud Would Increase, and Its Business Would Be Harmed.

PayPal faces significant risks of loss due to fraud and disputes between senders and recipients, including:

- unauthorized use of credit card and bank account information and identity theft;
- merchant fraud and other disputes over the quality of goods and services;
- breaches of system security;

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employee fraud; and

use of PayPal s system for illegal or improper purposes.

For the year ended December 31, 2001, and the six months ended June 30, 2002, PayPal s provision for transaction losses totaled $14.8 million and $13.1 million, representing 0.42% and 0.43% of PayPal s total payment volume. In April 2002, PayPal increased the credit card funding limit for unverified U.S.-based users from $1,000 to $2,000. This increase may result in higher transaction losses.

When a sender pays a merchant for goods or services through PayPal using a credit card and the cardholder is defrauded or otherwise disputes the charge, the full amount of the disputed transaction gets charged back to PayPal and its credit card processor levies additional fees against PayPal, unless PayPal can successfully challenge the chargeback. Chargebacks may arise from the unauthorized use of a cardholder s card number or from a cardholder s claim that a merchant failed to perform. If PayPal s chargeback rate becomes excessive, credit card associations also can require PayPal to pay fines and could terminate its ability to accept their cards for payments. Early in 2001, as a result of high chargeback rates in the second half of 2000, MasterCard determined that PayPal violated its operating rules by having excessive chargebacks and fined PayPal s card processor $313,600, which was subsequently passed on to PayPal. Although PayPal resolved this situation to MasterCard s satisfaction and has reduced its chargeback rate, we cannot assure you that new causes of excessive chargebacks will not arise in the future.

PayPal has taken measures to detect and reduce the risk of fraud, but it cannot assure you of these measures effectiveness. If these measures do not succeed, PayPal s business will suffer.

PayPal Incurs Chargebacks and Other Losses from Merchant Fraud, Payment Disputes and Insufficient Funds, and Its Liability from These Items Could Have a Material Adverse Effect on Its Business and Result in PayPal Losing the Right to Accept Credit Cards for Payment. If PayPal Is Prohibited from Accepting Credit Cards for Payment, Its Ability to Compete Could Be Impaired, and Its Business Would Suffer.

PayPal incurs substantial losses from merchant fraud, including claims from customers that merchants have not performed, that their goods or services do not match the merchant s description or that the customer did not authorize the purchase. PayPal also incurs losses from erroneous transmissions and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. PayPal s merchant-related chargebacks totaled $5.1 million for transactions that occurred during the year ended December 31, 2000. The cumulative gross amount of chargebacks received through June 30, 2002 with respect to merchant-related disputes for transactions that occurred during the year ended December 31, 2001 totaled $18.7 million. The gross amount of chargebacks received through June 30, 2002 with respect to merchant-related disputes for transactions that occurred during the six months ended June 30, 2002 totaled $10.6 million. PayPal s liability for such items could have a material adverse effect on its business, and if they become excessive, could result in PayPal losing the right to accept credit cards for payment. eBay is currently not subject to risks related to chargeback losses because its credit card payment processing agreement with Wells Fargo provides that Wells Fargo generally bears the risk related to chargebacks in exchange for higher processing fees.

Unauthorized Use of Credit Cards and Bank Accounts Could Expose PayPal to Substantial Losses. If PayPal Is Unable to Detect and Prevent Unauthorized Use of Cards and Bank Accounts, Its Business Would Suffer.

The highly automated nature of, and liquidity offered by, PayPal s payment product makes PayPal an attractive target for fraud. In configuring its product, PayPal faces an inherent trade-off between customer convenience and security. Identity thieves and those committing fraud using stolen credit card or bank account numbers, often in bulk and in conjunction with automated mechanisms of online communication, potentially can steal large amounts of money from businesses such as PayPal s. PayPal believes that several of PayPal s current and former competitors in the electronic payments business have gone out of

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business or significantly restricted their businesses largely due to losses from this type of fraud. PayPal expects that technically knowledgeable criminals will continue to attempt to circumvent PayPal s anti-fraud systems. During the four months between July and October 2000, PayPal experienced a significant fraud episode and, as a result, it incurred gross losses due to unauthorized chargebacks totaling $5.7 million. This amount represented 64.0% of total chargebacks due to unauthorized transactions for the year ended December 31, 2000. The cumulative gross amount of chargebacks received through June 30, 2002 with respect to unauthorized use of credit cards for transactions that occurred during the year ended December 31, 2001 totaled $7.2 million. For the year ended December 31, 2001, the amount of PayPal s losses with respect to unauthorized use of bank accounts totaled $1.2 million. The gross amount of chargebacks received through June 30, 2002 with respect to unauthorized use of credit cards for transactions that occurred during the six months ended June 30, 2002 totaled $5.4 million. For the six months ended June 30, 2002, the amount of PayPal s losses with respect to unauthorized use of bank accounts totaled $2.3 million. eBay is currently not subject to risks related to chargeback losses because its credit card payment processing agreement with Wells Fargo provides that Wells Fargo generally bears the risk related to chargebacks in exchange for higher processing fees.

PayPal s Processes to Reduce Fraud Losses Depend in Part on Its Ability to Restrict the Withdrawal of Customer Funds While It Investigates Suspicious Transactions. PayPal Has Been and Could Be Sued by Plaintiffs Alleging That PayPal s Restriction and Investigation Processes Violate Federal and State Law on Consumer Protection and Unfair Business Practice, and Are Inconsistent with PayPal s User Agreement. If PayPal Is Unable to Defend Itself Successfully, It Could Be Required to Restructure Its Anti-Fraud Processes in Ways That Would Harm Its Business, and to Pay Substantial Damages.

As part of PayPal s program to reduce fraud losses, it may temporarily restrict the ability of customers to withdraw their funds if those funds or their account activity are identified by PayPal s anti-fraud models as suspicious. On February 20, 2002, PayPal was sued in California state court in a proposed class action alleging that its restriction of customer accounts and failure to promptly un-restrict legitimate accounts violates state law on consumer protection and unfair business practices and is in breach of PayPal s User Agreement. This class action was refiled with different named plaintiffs on June 6, 2002. On March 12, 2002, PayPal was sued in the U.S. District Court for the District of Northern California in a proposed class action alleging that its restriction of customer accounts and failure to promptly un-restrict legitimate accounts violates federal and state law on consumer protection and unfair business practices. PayPal could be sued in the future by other persons making similar claims. If PayPal is unable to defend itself successfully, it could be required to restructure its anti-fraud processes in ways that would harm its business, and to pay substantial damages. Even if PayPal is able to defend itself successfully, the litigation could cause damage to its reputation, could consume substantial amounts of its management s time and attention, and could require PayPal to change its customer service and operations in ways that could increase its costs and decrease the effectiveness of its anti-fraud program.

Security and Privacy Breaches in PayPal s Electronic Transactions May Expose PayPal to Additional Liability and Result in the Loss of Customers, Either of Which Events Could Harm Its Business and Cause the Price of PayPal or eBay Common Stock to Decline.

Any inability on PayPal s part to protect the security and privacy of its electronic transactions could have a material adverse effect on its profitability. A security or privacy breach could:

- expose PayPal to additional liability;
- increase PayPal s expenses relating to resolution of these breaches; and
- deter customers from using PayPal s product.

We cannot assure you that PayPal s use of applications designed for data security will effectively counter evolving security risks or address the security and privacy concerns of existing and potential

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customers. Any failures in PayPal s security and privacy measures could have a material adverse effect on its business, financial condition and results of operations.

PayPal Could Incur Substantial Losses from Employee Fraud and, as a Result, Its Business Would Suffer.

The large volume of payments that PayPal handles for its customers makes it vulnerable to employee fraud or other internal security breaches. We cannot assure you that PayPal s internal security systems will prevent material losses from employee fraud.

Our Payment System Might Be Used for Illegal or Improper Purposes, Which Could Expose PayPal to Additional Liability and Harm Its Business.

Despite measures PayPal has taken to detect and prevent identity theft, unauthorized uses of credit cards and similar misconduct, its payment system remains 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, software and other intellectual property piracy, money laundering, bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages and tobacco products and online securities fraud. Despite measures PayPal has taken to detect and lessen the risk of this kind of conduct, we cannot assure you that these measures will succeed. In addition, future regulations under the USA Patriot Act may require PayPal to revise the procedures it takes to verify the identity of customers and to monitor more closely international transactions. PayPal s business could suffer if customers use its system for illegal or improper purposes.

In addition, PayPal classifies merchants who historically have experienced significant chargeback rates, such as online gaming-related service providers and online gaming merchants as higher risk . The legal status of many of these higher risk accounts is uncertain, and if these merchants are prohibited or restricted from operating in the future, PayPal s revenue from fees generated from these accounts would decline. Proposed legislation has been introduced in the U.S. Congress to clarify that operation of an Internet gaming business violates federal law, and to prohibit payment processors such as PayPal from processing payments for online gaming merchants. Even if this proposed legislation is not enacted, online gaming merchants could be determined to be in violation of existing federal and state laws resulting from its activities. In particular, the New York State Attorney General recently stated that even under current law, the processing of known gambling transactions may lead to liability for facilitating or aiding and abetting the underlying activity. On August 20, 2002, PayPal reached an agreement with the Attorney General of the State of New York in the state s inquiry into payments made through PayPal s service to online gambling merchants. In an assurance of discontinuance made to the New York Attorney General, PayPal agreed to cease processing payments from its New York members to online gambling merchants by September 1, 2002. PayPal took this action in voluntary cooperation with the New York Attorney General and did not admit to a violation of law. The New York Attorney General has agreed to accept PayPal s assurance of discontinuance in lieu of commencing a statutory proceeding. PayPal also agreed to pay $200,000 to the State of New York in penalties, disgorged profits and to cover the New York Attorney General s costs of investigation. In addition, PayPal has received federal grand jury subpoenas issued at the request of the United States Attorney for the Eastern District of Missouri. These subpoenas seek the production of documents related to online gambling activities. PayPal intends to cooperate fully with the United States Attorney s office in this matter.

If the online gaming merchants that accept PayPal are operating illegally, PayPal could be subject to civil and criminal lawsuits, administrative action, forfeiture proceedings and prosecution for, among other things, money laundering or for aiding and abetting violations of law. PayPal would lose the revenues associated with these accounts and could be subject to material penalties and fines, both of which would seriously harm its business.

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The Divestiture or Discontinuance of PayPal s Business Operations Relating to the Processing of Payments for Online Gambling Merchants Would Adversely Affect PayPal s Business and Results of Operations.

eBay has announced that upon completion of the proposed merger, eBay intends to discontinue these business operations. On August 20, 2002, PayPal reached an agreement with the Attorney General of the State of New York in the state s inquiry into payments made through PayPal s service to online gambling merchants. In an assurance of discontinuance made to the New York Attorney General, PayPal agreed to cease processing payments from its New York members to online gambling merchants by September 1, 2002. PayPal s board of directors has not yet made, but could make, a determination to discontinue these business operations in other states during the period before the proposed merger is completed or after the termination of the merger agreement if such termination occurs. As a result of the eBay announcement, the assurance of discontinuance in New York or any future PayPal announcement, PayPal may lose significant revenues associated with online gambling merchants seeking alternatives to PayPal for payment processing as a result of the uncertainty of how long PayPal may continue to process payments for online gambling merchants. Approximately 8% of PayPal s revenues for the six months ended June 30, 2002 were derived from these business operations. There can be no assurance that PayPal will continue these business operations prior to the merger or following the termination of the merger agreement, as the case may be. The divestiture or discontinuance of these business operations would result in a loss of revenue to PayPal and would adversely affect PayPal s business and results of operations.

Changes to Card Association Rules or Practices Could Negatively Affect PayPal s Service and, if It Does Not Comply with the Rules, Could Result in a Termination of PayPal s Ability to Accept Credit Cards. If PayPal Is Unable to Accept Credit Cards, PayPal s Competitive Position Would Be Seriously Damaged.

Because PayPal is not a bank, it cannot belong to and directly access the Visa and MasterCard credit card associations or the ACH payment network. As a result, PayPal must rely on banks and their service providers to process its transactions. PayPal must comply with the operating rules of the credit card associations and NACHA as they apply to merchants. The associations member banks set these rules, and the associations interpret the rules. Some of those member banks compete with PayPal. Visa, MasterCard, American Express or Discover could adopt new operating rules or interpretations of existing rules which PayPal or its processors might find difficult or even impossible to comply with, in which case PayPal could lose its ability to give customers the option of using credit cards to fund their payments. If PayPal were unable to accept credit cards, our competitive position would be seriously damaged.

MasterCard has announced that, effective May 1, 2002, it will require each customer that regularly uses PayPal to accept payment for goods or services, to enter into a contract with the bank that processes MasterCard transactions for PayPal and to agree to observe MasterCard rules. We believe that PayPal can comply with this rule through changes to its User Agreement, but we are unable at this time to predict precisely how this rule will affect PayPal s business. It appears likely that PayPal will be required to change the interrelationship among itself, its customers and its credit card processing bank in ways that could increase PayPal s costs, reduce the attractiveness of its service, or both.

In 2001, Visa indicated that some of PayPal s practices violated its operating rules, and PayPal implemented changes in response. In January 2002, PayPal received correspondence through its credit card processor that three issues remain unresolved. These issues relate to PayPal s international membership fees, its fees for international credit card funded payments, and its process for obtaining authorization to charge a customer s Visa account if the customer s ACH transfer fails. In connection with these issues, Visa has assessed fines on PayPal s processor totaling $130,000 through June 30, 2002, $95,000 of which PayPal s processor has passed through to PayPal. PayPal has implemented changes to its practices to resolve these issues, including changing its fee structure so that it no longer assesses fees on international credit card funded payments. PayPal believes these changes have resolved all outstanding issues that resulted in compliance fines from Visa. However, these changes could make the PayPal service less attractive to its customers.

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PayPal s Status Under State, Federal and International Financial Services Regulation Is Unclear. Violation of or Compliance with Present or Future Regulation Could Be Costly, Expose PayPal to Substantial Liability, Force PayPal to Change Its Business Practices or Force PayPal to Cease Offering Its Current Product.

PayPal operates in an industry subject to government regulation. PayPal currently is subject to some states money transmitter regulations, to federal regulations in its role as transfer agent and investment adviser to the PayPal Money Market Fund, or the Fund, and to federal electronic fund transfer and money laundering regulations. In the future, PayPal might be subjected to:

- state or federal banking regulations;
- additional states money transmitter regulations and federal money laundering regulations;
- international banking or financial services regulations or laws governing other regulated industries; or
- U.S. and international regulation of Internet transactions.

If PayPal is found to be in violation of any current or future regulations, PayPal could be:

- exposed to financial liability, including substantial fines which could be imposed on a per transaction basis and disgorgement of its profits;
- forced to change its business practices; or
- forced to cease doing business altogether or with the residents of one or more states or countries.

If PayPal Were Found to Be Subject to or in Violation of Any Laws or Regulations Governing Banking, It Could Be Subject to Liability and Forced to Change Its Business Practices.

PayPal believes that the licensing requirements of the Office of the Comptroller of the Currency, the Federal Reserve Board and other federal or state agencies that regulate banks, bank holding companies or other types of providers of electronic commerce services do not apply to PayPal, except for certain money transmitter licenses mentioned below. However, one or more states may conclude that, under its or their statutes, PayPal is engaged in an unauthorized banking business. PayPal has received written communications from regulatory authorities in New York, most recently in February 2002, and Louisiana expressing the view that its service as it formerly operated constituted an unauthorized banking business, and from authorities in California and Idaho in 2001 that its service might constitute an unauthorized banking business. PayPal has taken steps to address these states concerns, and has received a conclusion from the New York Banking Department that its current business model does not constitute illegal banking. PayPal also has obtained licenses to operate as a money transmitter in Louisiana and Idaho. However, we cannot assure you that the steps PayPal has taken to address state regulatory concerns will be effective in all states. If PayPal is found to be engaged in an unauthorized banking business in one or more states, it might be subject to monetary penalties and adverse publicity and might be required to cease doing business with residents of those states. Even if the steps it has taken to resolve these states concerns are deemed sufficient by the state regulatory authorities, PayPal could be subject to fines and penalties for its prior activities. The need to comply with state laws prohibiting unauthorized banking activities could also limit PayPal s ability to enhance its services in the future.

If PayPal Were Found to Be Subject to or in Violation of Any Laws or Regulations Governing Money Transmitters, It Could Be Subject to Liability and Forced to Change Its Business Practices.

A number of states have enacted legislation regulating money transmitters and PayPal has applied for licenses under this legislation in 28 jurisdictions. To date, PayPal has obtained licenses in 12 states and the District of Columbia. As a licensed money transmitter, PayPal is subject to bonding requirements, restrictions on its investment of customer funds, reporting requirements and inspection by state regulatory agencies. If PayPal s pending applications were denied, or if it were found to be subject to and in violation

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of any money services laws or regulations, PayPal also could be subject to liability or forced to cease doing business with residents of certain states or to change its business practices. Even if PayPal is not forced to change its business practices, it could be required to obtain licenses or regulatory approvals that could impose a substantial cost on PayPal.

If PayPal Were to Be Found Subject to or in Violation of Any Laws or Regulations Governing Electronic Fund Transfers, It Could Be Subject to Liability and Forced to Change Its Business Practices.

Although there have been no definitive interpretations to date, PayPal has assumed that its product is subject to the Electronic Fund Transfer Act and Regulation E of the Federal Reserve Board. As a result, among other things, PayPal must provide advance disclosure of changes to its product, follow specified error resolution procedures and absorb losses from transactions not authorized by the consumer. In addition, PayPal is subject to the financial privacy provisions of the Gramm-Leach-Bliley Act and related regulations. As a result, some customer financial information that PayPal receives is subject to limitations on reuse and disclosure. Additionally, pending legislation at the state and federal levels may restrict further PayPal s information gathering and disclosure practices. Existing and potential future privacy laws may limit PayPal s ability to develop new products and services that make use of data gathered through its product. The provisions of these laws and related regulations are complicated, and PayPal does not have extensive experience in complying with these laws and related regulations. Even technical violations of these laws can result in penalties of up to $1,000 assessed for each non-compliant transaction. During the year ended December 31, 2001 and the six months ended June 30, 2002, PayPal processed approximately 189,000 and 306,000 transactions per day, and any violations could expose PayPal to significant liability.

PayPal Is Subject to Laws and Regulations on Money Laundering and Reporting of Suspicious Activities That Could Have a Material Adverse Impact on Its Business and Could Subject It to Civil and Criminal Liability.

PayPal is subject to money laundering laws and regulations that prohibit, among other things, its involvement in transferring the proceeds of criminal activities. These laws and regulations require PayPal to operate an anti-money laundering program that contains at least the following elements: written policies and procedures (including those relating to customer identification), training for employees, designation of a compliance officer, and regular independent review of the program. Such a program must be in place by July 24, 2002. PayPal has adopted a program to comply with these regulations, but any errors or failure to implement the program properly could lead to lawsuits, administrative action, fine and/or prosecution by the government. PayPal is also subject to regulations that require it to report suspicious activities involving transactions of $2,000 or more and to obtain and keep more detailed records on the senders and recipients in transfers of $3,000 or more. The interpretation of suspicious activities in this context is uncertain. Future regulations under the USA Patriot Act may require PayPal to revise the procedures it takes to verify the identity of its customers and to monitor more closely international transactions. These regulations could impose significant costs on PayPal and make it more difficult for new customers to join its network. PayPal could be required to learn more about its customers before opening an account, to obtain additional verification of international customers and to monitor its customers activities more closely. These requirements could raise PayPal s costs significantly and reduce the attractiveness of its product. Failure to comply with federal and state money laundering laws could result in significant criminal and civil lawsuits, penalties and forfeiture of significant assets.

Even if PayPal complies with these laws, federal and state law enforcement agencies could seize customer funds that are proceeds of unlawful activity, which could result in adverse publicity for PayPal and affect its business adversely. Some online casinos use PayPal s product to accept and make payments. If these casinos are operating illegally, PayPal may be subject to civil proceedings or criminal prosecution under numerous laws, including but not limited to money laundering laws, as discussed above under the caption The Divestiture or Discontinuation of PayPal s Business Operations Relating to the Processing of Payments for Online Gambling Merchants Would Adversely Affect PayPal s Business and Results of

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Operations . In addition, future regulation in this area is likely, and PayPal cannot predict how such regulation would affect it. Complying with such regulation could be expensive or require PayPal to change the way it operates its business.

PayPal s Status Under Banking or Financial Services Laws or Other Laws in Countries Outside the U.S. Is Unclear. The Cost of Obtaining Any Required Licenses or Regulatory Approvals in These Countries Could Affect PayPal s Future Profitability.

PayPal currently offers its product to customers with credit cards in 37 countries outside the U.S. In sixteen of these countries Canada, the United Kingdom, Germany, the Netherlands, France, Australia, New Zealand, Hong Kong, Japan, Spain, Mexico, Singapore, Sweden, Denmark, Finland and Norway customers can withdraw funds to local bank accounts. In these countries, it is not clear whether, in order to provide its product in compliance with local law, PayPal needs to be regulated as a bank or financial institution or otherwise. If PayPal were found to be subject to and in violation of any foreign laws or regulations, it could be subject to liability, forced to change its business practices or forced to suspend operations in one or more countries. Alternatively, PayPal could be required to obtain licenses or regulatory approvals that could impose a substantial cost on it and involve considerable delay to the provision or development of its product. Implementation of PayPal s plans to enhance the attractiveness of its product for international customers, in particular its plans to offer customers the ability to transact business in major currencies in addition to the U.S. dollar, will increase the risks that it could be found to be in violation of laws or regulations in countries outside the U.S.

PayPal Is Subject to U.S. and Foreign Government Regulation of the Internet, the Impact of Which Is Difficult to Predict. PayPal Could Be Exposed to Significant Liabilities and Expenses if It Is Required to Comply with New or Additional Regulations, and as a Result, PayPal s Business Could Suffer.

There are currently few laws or regulations that apply specifically to the sale of goods and services on the Internet. The application to PayPal of existing laws and regulations relating to issues such as banking, currency exchange, online gaming, electronic contracting, consumer protection and privacy is unclear. PayPal s liability if its customers violate laws on pricing, taxation, impermissible content, intellectual property infringement, unfair or deceptive practices or quality of services is also unclear. In addition, PayPal may become subject to new laws and regulations directly applicable to the Internet or PayPal s activities. Any existing or new legislation applicable to PayPal could expose it to substantial liability, including significant expenses necessary to comply with these laws and regulations, and reduce use of the Internet on which PayPal depends.

In 1998, the U.S. government enacted a three-year moratorium prohibiting states and local governments from imposing new taxes on Internet access or electronic commerce transactions. This moratorium has been extended until November 1, 2003. After that date, unless it is renewed, states and local governments may levy additional taxes on Internet access and electronic commerce transactions. An increase in the taxation of electronic commerce transactions may make the Internet less attractive for consumers and businesses.

PayPal s Financial Success Will Remain Highly Sensitive to Changes in the Rate at Which Its Customers Fund Payments Using Credit Cards Rather Than Bank Account Transfers or Existing PayPal Account Balances. PayPal s Profitability Could Be Harmed if the Rate at Which Customers Fund Using Credit Cards Goes Up.

PayPal pays significant transaction fees when senders fund payment transactions using credit 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. For the year ended December 31, 2001 and the six months ended June 30, 2002, senders funded 51.5% and 46.9%, respectively, of PayPal s payment volume using credit cards. Senders may resist funding payments by electronic transfer from bank accounts because of the greater protection offered by credit cards, including the ability to dispute and reverse merchant charges, because of frequent flier miles or other incentives offered by credit cards or because of generalized fears regarding privacy or loss of control in surrendering bank account information to a third party.

Increases in Credit Card Processing Fees Could Increase PayPal s Costs, Affect Its Profitability, or Otherwise Limit Its Operations.

From time to time, Visa, MasterCard, American Express and Discover increase the interchange fees that they charge for each transaction using their cards. MasterCard implemented an increase to its interchange fees effective April 2002. PayPal s credit card processors have the right to pass any increases in interchange fees on to PayPal. Any such increased fees could increase PayPal s operating costs and reduce its profit margins. Furthermore, PayPal s credit card processors require it to pledge cash as collateral with respect to PayPal s acceptance of Visa, MasterCard, American Express and Discover and the amount of cash that PayPal is required to pledge could be increased at any time.

PayPal Has Limited Experience in Managing and Accounting Accurately for Large Amounts of Customer Funds. PayPal s Failure to Manage These Funds Properly Would Harm Its Business.

PayPal s ability to manage and account accurately for customer funds requires a high level of internal controls. PayPal has neither an established operating history nor proven management experience in maintaining, over a long term, 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 accurately customer funds could diminish customer use of PayPal s product severely.

Loss of Principal of Customer Funds Placed in Bank Accounts or in the PayPal Money Market Fund May Affect Adversely Customer Perceptions About the Safety of PayPal s Service and as a Result Could Reduce Its Payment Volume and Its Ability to Operate Its Business Profitably.

PayPal places customer funds that are not withdrawn from the PayPal system in bank accounts as agent for the customer, unless the customer is a U.S. resident and has chosen to enroll in the money market sweep, in which case the customer s balances are directed to purchase shares in the Fund. PayPal seeks to place customer funds in well-capitalized banks, and it has obtained an opinion from the Federal Deposit Insurance Corporation that funds placed in bank accounts will be eligible for federal deposit insurance on a per-customer basis as long as PayPal maintains accurate records and continues to act as agent for the customer. However, customer funds could be lost in the event of the insolvency of one or more of these banks. Customers who opt to invest their money in the Fund may lose the original principal value of their initial investment. If these losses occur, perceptions regarding PayPal s safety and handling of customer funds may result in decreased customer balances and payment volume, which would increase PayPal s costs and reduce its revenue.

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Cautionary Statement Concerning

Forward-Looking Statements

This proxy statement/ prospectus and the documents incorporated by reference into this proxy statement/ prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of eBay s, PayPal s and the combined company s plans, objectives, expectations and intentions. When used in this proxy statement/ prospectus and the documents incorporated by reference into this proxy statement/ prospectus, the words may , might , should , expects , anticipates , believes , estimates , intends and plans and simil are intended to identify certain of these forward-looking statements. Because these forward-looking statements involve risks and uncertainties, the actual results of eBay, PayPal and the combined company could differ materially from those expressed or implied by the forward-looking statements in this proxy statement/ prospectus and the documents incorporated by reference into this proxy statement/ prospectus. You should specifically consider those factors discussed under the caption entitled Risk Factors on page 25 and the other cautionary statements made in this proxy statement/ prospectus. The cautionary statements made in this proxy statement/prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this proxy statement/ prospectus and the documents incorporated by reference into this proxy statement/ prospectus.

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The PayPal Special Meeting

Date, Time and Place

The special meeting will be held at 9:00 a.m., local time, on October 3, 2002 at 1840 Embarcadero Road, Palo Alto, California 94303.

Items of Business

At the special meeting, you will be asked to consider and vote upon the proposal to approve and adopt the merger agreement and approve the merger. You also will consider and vote upon any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting. PayPal currently does not contemplate that any other matters will be considered at the special meeting.

Recommendation of the Board of Directors of PayPal

After careful consideration, the board of directors of PayPal determined that the merger is advisable, and is fair to and in the best interests of PayPal and its stockholders and approved the merger agreement and the merger. Accordingly, the board of directors of PayPal recommends that you vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

Admission to the Special Meeting

Only PayPal stockholders, including joint holders, as of the close of business on August 28, 2002 and other persons holding valid proxies for the special meeting are entitled to attend the special meeting. All stockholders and their proxies should be prepared to present photo identification. In addition, if you are a record holder, your name is subject to verification against the list of record holders on the record date prior to being admitted to the meeting. PayPal stockholders who are not record holders but hold shares through a broker or nominee (*i.e.,* in street name) should be prepared to provide proof of beneficial ownership on the record date, such as a recent account statement or similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the special meeting.

Method of Voting; Record Date; Stockholders Entitled to Vote; Quorum

PayPal stockholders are being asked to vote both shares held directly in their name as stockholders of record and any shares they hold in street name as beneficial owners. Shares held in street name are shares held in a stock brokerage account or shares held by a bank or other nominee.

The method of voting differs for shares held as a record holder and shares held in street name. Record holders will receive proxy cards. Holders of shares in street name will receive voting instruction cards in order to instruct their brokers or nominees how to vote.

Proxy cards and voting instruction cards are being solicited on behalf of the board of directors of PayPal from PayPal stockholders in favor of the proposal to approve and adopt the merger agreement and approve the merger.

Stockholders may receive more than one set of voting materials, including multiple copies of this proxy statement/ prospectus and multiple proxy cards or voting instruction cards. For example, stockholders who hold shares in more than one brokerage account will receive a separate voting instruction card for each brokerage account in which shares are held. Stockholders of record whose shares are registered in more than one name will receive more than one proxy card. PayPal stockholders should complete, sign, date and return each proxy card and voting instruction card they receive.

Only stockholders of record of PayPal at the close of business on August 28, 2002, the record date for the special meeting, are entitled to receive notice of, and have the right to vote at, the special meeting. On

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the record date, 61,559,502 shares of PayPal common stock were issued and outstanding. Stockholders of record of PayPal on the record date are entitled to one vote per share of PayPal common stock on the proposal to approve and adopt the merger agreement and approve the merger.

A quorum of stockholders is necessary to have a valid meeting of PayPal stockholders. A majority of the shares of PayPal common stock issued and outstanding and entitled to vote on the record date must be present in person or by proxy at the special meeting in order for a quorum to be established.

Abstentions and broker non-votes count as present for establishing a quorum. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial owner of the shares and no instructions are given. Shares held by PayPal in its treasury do not count toward establishing a quorum.

Adjournment and Postponement

PayPal stockholders may be asked to vote upon a proposal to adjourn or postpone the special meeting.

Required Vote

Approval and adoption of the merger agreement and approval of the merger will require the affirmative vote of the holders of a majority of the shares of PayPal common stock outstanding on the record date. Under applicable Delaware law, for the purpose of determining whether the proposal to approve and adopt the merger agreement and approve the merger has received the requisite number of affirmative votes, abstentions will be counted and have the same effect as a vote against the proposal. In addition, failing to vote will have the same effect as a vote against the proposal. A proxy card that is signed and returned that does not indicate a vote for or against the proposal will be counted as a vote for the approval and adoption of the merger agreement and approval of the merger. A broker or nominee who holds shares for customers, who are the beneficial owners of those shares, are prohibited from giving a proxy to vote those customers shares with respect to the proposal to be voted on at the special meeting without instructions from the customer. Shares held by a broker or nominee which are not voted because the customer has not provided instructions to the broker or nominee will have the same effect as a vote against the proposal.

Share Ownership of PayPal Directors and Executive Officers

At the close of business on the record date for the special meeting, directors and executive officers of PayPal and their affiliates beneficially owned and were entitled to vote 36.5% of the 61,559,502 shares of PayPal common stock outstanding on that date.

Voting Procedures

Submitting Proxies or Voting Instructions

PayPal stockholders of record may vote their shares by attending the special meeting and voting their shares in person at the special meeting, or by completing their proxy cards and signing, dating and mailing them in the enclosed self-addressed envelopes. If a proxy card is signed by a stockholder of record of PayPal and returned without voting instructions, the shares represented by the proxy will be voted FOR the proposal to approve and adopt the merger agreement and approve the merger, and in the discretion of Peter A. Thiel and John D. Muller, as the proxy holders, on any other business that may properly come before the special meeting or any adjournment or postponement of the PayPal special meeting.

Because Delaware, the state in which PayPal is incorporated, permits electronic submission of proxies, PayPal stockholders who are stockholders of record have the option to submit their proxies by using the telephone or the Internet. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. These procedures allow PayPal stockholders to appoint a proxy to vote their shares of PayPal common stock and to confirm that their instructions have been properly recorded. Instructions for voting by using the telephone or the Internet are printed on the proxy card for PayPal stockholders of record.

PayPal stockholders whose shares are held in the name of a broker or nominee must either direct the record holder of their shares as to how to vote their shares of PayPal common stock or obtain a proxy from the record holder to vote at the special meeting. Beneficial holders of PayPal common stock should check the voting instruction cards used by their brokers or nominees to see if they may vote by using the telephone or the Internet.

Revoking Proxies or Voting Instructions

PayPal stockholders of record may revoke their proxies at any time prior to the time their proxies are voted at the special meeting. Proxies may be revoked by written notice to the corporate secretary of PayPal, by a later-dated proxy signed and returned by mail, or by attending the special meeting and voting in person. PayPal stockholders of record may also revoke proxies by a later-dated proxy using the telephone or Internet voting procedures described on their proxy cards. Remember that your proxy card or voting instruction card must be received, or you must vote using the telephone or Internet if available, no later than 11:00 a.m., local time, on October 2, 2002 in order for your shares to be voted at the special meeting, unless you attend and vote at the special meeting.

PayPal stockholders whose shares are held in the name of a broker or nominee may change their votes by submitting new voting instructions to their brokers or nominees. Those PayPal stockholders may not vote their shares in person at the special meeting unless they obtain a signed proxy from the record holder giving them the right to vote their shares.

Proxy Solicitation

The board of directors of PayPal is soliciting proxies for the special meeting from PayPal stockholders. Each company will share equally the cost of printing and filing this proxy statement/prospectus and the registration statement on Form S-4, of which it forms a part, that has been filed by eBay with the Securities and Exchange Commission.

Other than the costs shared with eBay, the cost of soliciting proxies from PayPal stockholders will be paid by PayPal. In addition to solicitation by mail, directors, officers and employees of PayPal may also solicit proxies from stockholders by telephone, telecopy, telegram or in person. PayPal will also make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send the proxy materials to beneficial owners. Upon request, PayPal will reimburse those brokerage houses and custodians for their reasonable expenses in so doing.

PayPal has retained Georgeson Shareholder Communications Inc., or Georgeson, to assist it with the solicitation of proxies and to verify certain records related to the solicitations. PayPal will pay Georgeson a fee of $6,500, plus their reasonable expenses, for these services. PayPal has agreed to indemnify Georgeson against certain liabilities resulting from claims involving Georgeson that directly relate to or arise out of Georgeson s engagement (except for those directly or principally resulting from any gross negligence, bad faith or willful or intentional misconduct by Georgeson).

Please do not send in any PayPal stock certificates with your proxy cards or voting instruction cards. Mellon Investor Services LLC, the exchange agent for the merger, will send transmittal forms with instructions for the surrender of certificates representing shares of PayPal common stock to former PayPal stockholders shortly after the merger is completed.

Other Matters

PayPal is not aware of any other business to be acted upon at the special meeting. If, however, other matters are properly brought before the special meeting or any adjournment or postponement of the special meeting, the persons named as proxy holders, Peter A. Thiel and John D. Muller, will each have discretion to act on those matters, or to adjourn or postpone the special meeting.

The Companies

eBay

eBay pioneered online trading by developing a Web-based community platform in which buyers and sellers are brought together in an efficient and entertaining format to browse, buy and sell items such as collectibles, automobiles, high-end or premium art items, jewelry, consumer electronics and a host of practical and miscellaneous items. The eBay trading platform is a fully automated, topically arranged, intuitive, and easy-to-use service that supports an auction format in which sellers list items for sale and buyers bid on items of interest, and a fixed-price format in which sellers and buyers trade items at a fixed price established by sellers. As of June 30, 2002, through its wholly-owned and partially-owned subsidiaries and affiliates, eBay operated online trading platforms directed towards and localized for the United States, Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, the Netherlands, New Zealand, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. eBay s principal executive offices are located at 2145 Hamilton Avenue, San Jose, California 95125, and its telephone number is (408) 376-7400.

Additional information concerning eBay is included in eBay s reports filed under the Exchange Act that are incorporated by reference into this proxy statement/ prospectus. See Where You Can Find More Information on page 165.

Vaquita Acquisition Corp.

Vaquita Acquisition Corp. is a newly-formed and wholly-owned subsidiary of eBay. If we complete the merger, Vaquita Acquisition Corp. will be merged with and into PayPal, with PayPal becoming a wholly-owned subsidiary of eBay. Vaquita Acquisition Corp. was organized solely for use in the merger. This is the only business of Vaquita Acquisition Corp.

PayPal

PayPal enables any business or consumer with email to send and receive online payments securely, conveniently and cost-effectively. PayPal s network builds on the existing financial infrastructure of bank accounts and credit cards to create a global payment system. PayPal currently offers its account-based system to users in 38 countries including the U.S. PayPal s product was launched in October 1999. As of June 30, 2002, PayPal s network had grown to include 14.1 million personal accounts and 3.7 million business accounts. PayPal delivers a product well suited for small businesses, online merchants, individuals and others. PayPal s principal executive offices are located at 303 Bryant Street, Mountain View, California 94041, and its telephone number is (650) 864-8000.

Additional information concerning PayPal is included in Information About PayPal on page 98.

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The Merger

General

The following section summarizes the material terms of the merger agreement, a copy of which is included in this proxy statement/prospectus as Annex A and is incorporated herein by reference. We urge you to read the merger agreement in its entirety for a more complete description of the terms and conditions upon which the merger is to be effected.

If the merger agreement is approved and adopted by the holders of a majority of the outstanding shares of PayPal common stock entitled to vote at the special meeting and the other conditions to closing are satisfied or waived, Vaquita Acquisition Corp., a wholly-owned subsidiary of eBay, will be merged with and into PayPal. PayPal will be the surviving corporation and will become a wholly-owned subsidiary of eBay. As a result of the merger, each holder of PayPal common stock will be entitled to receive from eBay, in exchange for each share of PayPal stock, 0.39 of a share of eBay common stock.

Merger Consideration

If the merger agreement is approved and adopted and the merger is completed, each share of PayPal common stock will be converted into the right to receive 0.39 of a share of eBay common stock.

You will not receive fractional shares of eBay common stock. Instead, you will receive a cash payment, without interest, for any fractional share of eBay common stock you might otherwise have been entitled to receive, which payment represents your proportionate interest in the net proceeds from the sale by the exchange agent of the aggregate fractional shares of eBay common stock.

Schedule of Important Dates

The following schedule shows important dates and events in connection with the special meeting.

Dates	Events
August 28, 2002	Record date for special meeting
October 3, 2002	Special meeting

The merger is expected to close in the first part of the fourth quarter of 2002. However, we cannot predict the exact timing because the merger is subject to regulatory approvals and other conditions.

Background of the Merger

PayPal and eBay first discussed a possible transaction in November 2000. These initial discussions involved a proposal that PayPal and Billpoint be combined into a single company, the stockholders of which would include PayPal s then existing stockholders and Billpoint s then existing two stockholders, eBay and Wells Fargo.

On December 5, 2000, PayPal retained Morgan Stanley to serve as its financial advisor in connection with a possible sale of PayPal. PayPal engaged in discussions regarding a possible strategic transaction with several different parties over the next several months, including eBay.

In February and March 2001, discussions between eBay and PayPal focused on an acquisition of PayPal by eBay. During this period eBay retained Goldman, Sachs & Co. as its financial advisor in connection with an acquisition of PayPal. After eBay conducted preliminary due diligence on PayPal, the companies were not able to agree on a valuation for PayPal and in March 2001 discussions between the companies ceased. Discussions with other parties concerning a possible strategic transaction did not result in any proposals that were acceptable to PayPal.

During the summer of 2001, representatives of PayPal and eBay had a series of meetings to discuss the assumptions underlying their divergent valuations of PayPal. The companies were unable to reach agreement on PayPal s valuation. eBay made PayPal an offer that was rejected and the discussions ended.

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In September 2001, PayPal filed a registration statement with the SEC for its initial public offering.

In November 2001, eBay contacted PayPal regarding a possible acquisition of PayPal. Representatives of the two companies held a series of meetings to discuss PayPal s valuation and the terms of a possible transaction. eBay made PayPal an offer in January 2002 to acquire PayPal for $825 million of eBay common stock. This offer was rejected by PayPal and the discussions ended. PayPal subsequently completed its initial public offering.

In late February 2002, eBay acquired the interest in Billpoint that it did not own, which enabled eBay to enter into a transaction with PayPal without obtaining the consent of Wells Fargo. Thereafter, PayPal contacted eBay to determine whether eBay had an interest in pursuing an acquisition of PayPal now that eBay owned 100% of Billpoint and PayPal was a public company.

After discussions that led to a preliminary understanding of certain key financial terms, eBay and PayPal signed a mutual non-disclosure agreement dated as of March 25, 2002. The parties agreed to negotiate numerous other terms as part of the process of reaching agreement on definitive acquisition documents.

On March 26, 2002, representatives of the two companies gave presentations to each other regarding their respective business models, strategy, operations and financial results and commenced due diligence on each other that continued over the next two weeks.

On March 29, 2002, representatives of eBay delivered a draft merger agreement to representatives of PayPal and PayPal notified Morgan Stanley of the potential transaction. Over the course of the next two weeks, representatives of the companies negotiated over the terms of the merger agreement and other related agreements while also continuing to perform due diligence. During this period, the market price of PayPal common stock increased relative to the market price of eBay common stock.

On April 7, 2002, PayPal entered into a new letter agreement with Morgan Stanley pursuant to which Morgan Stanley was formally retained to meet with PayPal s board of directors and provide a financial opinion letter in connection with a possible transaction.

During the morning of April 11, 2002, representatives of the companies met to continue negotiations over the terms of the merger agreement and other related agreements. Later that day, PayPal s board of directors met and determined not to proceed with the on-going negotiations on the terms then under discussion. Representatives of PayPal were directed to meet with representatives of eBay to convey the determination by PayPal s board of directors that it would be willing to complete negotiations on a transaction prior to each company announcing first quarter results only on the basis of specified improved financial and other terms.

At a subsequent meeting on April 11, 2002, eBay rejected PayPal s proposed new terms and negotiations ceased.

After this meeting, the subsequent contacts between the companies were infrequent and incidental to their respective businesses. On May 15, 2002, PayPal sent a letter to representatives of eBay requesting the return of all materials provided to eBay and its representatives in connection with eBay s due diligence investigation of PayPal. On May 16, 2002, eBay sent a similar letter to PayPal and the parties complied with the respective requests.

Shortly after the termination of negotiations on April 11, 2002, eBay intensified its efforts regarding a potential strategic transaction with another company relating to the provision of online payment services.

Incidental to its business, PayPal participated as an exhibitor at the eBay Live conference, held from June 22, 2002 through June 24, 2002 in Anaheim, California and attended by more than 5,000 eBay sellers, including many of the largest sellers on eBay s website. During the course of the conference on June 23, 2002, a senior officer from each of PayPal and eBay had a spontaneous conversation on the exhibition floor of the conference and discussed the reasons why the previous negotiations between the companies had failed. Each officer expressed regret over the failure of the previous negotiations and discussed whether it would be possible to start new negotiations. At a second meeting later that afternoon, the PayPal officer conveyed to the eBay officer that there was interest within PayPal s senior management for starting new discussions with eBay where the negotiations between the companies had ended on April 11, 2002. Late that evening, eBay stated that it was not willing to engage in negotiations with PayPal at that time and that PayPal should not postpone its then pending secondary offering of PayPal common stock. At this time, eBay s discussions concerning an alternative strategic transaction were still actively ongoing.

On June 29, 2002, the PayPal officer and the eBay officer talked by telephone concerning whether it would be possible for the two sides to meet.

In the late morning of July 2, 2002, the two officers agreed to arrange a meeting for later that day. That afternoon, representatives of the two companies attended a meeting to discuss the possible terms and timing of eBay s potential acquisition of PayPal, including a proposed exchange ratio. In light of the breakdown of the previous negotiations, representatives of eBay indicated that eBay would not be willing to start new merger discussions unless PayPal s board of directors provided its preliminary approval of the financial terms proposed by eBay and agreed to work with the objective of concluding negotiations by July 8, 2002 to minimize market risk, the possibility of rumors developing in the marketplace concerning the proposed transaction and business disruption. Representatives of PayPal agreed to seek to convene a special meeting of PayPal s board of directors for the next day to consider the proposed terms and timing of the transaction.

On July 3, 2002, eBay provided PayPal with a written preliminary proposal setting forth the proposed terms that were discussed during the meeting on July 2, 2002.

Later that day, PayPal s board of directors held a telephonic meeting at which time they discussed the preliminary proposal received earlier that day from eBay. After discussing the proposal, the board of directors decided to pursue discussions with eBay regarding a potential transaction.

Following the meeting of PayPal s board of directors, an organizational conference call was held among representatives of eBay and PayPal. The parties discussed the timetable for initiating the process of performing business, financial, accounting, regulatory, legal and other due diligence on the respective companies and negotiating the terms of the merger transaction with the objective of executing the merger agreement and related agreements by July 8, 2002.

On July 4, 2002 through July 6, 2002, representatives of eBay and PayPal participated in a series of meetings to perform business, operations, financial, accounting, regulatory, legal and other due diligence on each of the respective companies.

On July 4, 2002 through July 6, 2002, representatives of eBay and PayPal participated in a series of meetings to negotiate the terms of the merger agreement and other related agreements. The negotiations covered all aspects of the transaction and, as a result, among other things, the representations and warranties made by PayPal were narrowed, the restrictions on the conduct of PayPal s business were loosened, the conditions to completion of the proposed merger were limited, the provisions regarding termination of the merger agreement were limited, the details of the no shop clause were finalized, the amount of the termination fees was reduced and the events triggering payment of such fees were limited and the consequences of termination and the terms and delivery of the employment agreements and stockholders agreements were finalized. In addition, the negotiations resulted in fewer shares of PayPal common stock being subject to the stockholders agreements.

On the afternoon of July 6, 2002, PayPal s board of directors held a telephonic meeting to discuss the status of negotiations of the proposed transaction and to meet with PayPal s management and its financial, accounting and legal advisors. Members of PayPal s management and each of the company s financial, accounting and legal advisors presented and discussed with the board the results of their business, operations, financial, accounting, regulatory, legal and other due diligence review of eBay and reviewed the terms and conditions of the merger agreement that had been negotiated by management. A representative of PayPal s outside legal counsel made a presentation concerning the fiduciary duties of PayPal s directors in considering and approving the merger. PayPal s board of directors engaged in extensive discussion and consideration of the proposed transaction, the potential alternatives to the transaction and the benefits and risks of entering into the merger agreement compared to continuing as a stand alone entity. One of PayPal s directors was not present at this meeting.

On July 7, 2002, PayPal s board of directors met to discuss the terms and conditions set forth in the final documentation for the proposed merger and to receive the presentation and financial opinion letter of Morgan Stanley, as more fully described under Opinion of PayPal s Financial Advisor on page 70. After making its presentation and answering the questions of the board, Morgan Stanley delivered its opinion that, as of July 7, 2002 and based on and subject to the considerations in its opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to holders of PayPal common stock. After further deliberation with PayPal management and its legal advisors, PayPal s board of directors determined that the terms of the merger were fair to and in the best interests of PayPal and its stockholders and as such, by a unanimous vote of the directors present, voted to enter into the merger agreement and to recommend that PayPal stockholders approve and adopt the merger agreement and approve the merger. One of PayPal s directors was not present at this meeting.

On July 7, 2002, eBay s board of directors held a telephonic meeting to review the proposed terms of the merger and the merger agreement, stockholders agreements and employment agreements. eBay s management reviewed with eBay s board of directors the strategic rationale for the merger and the results of management s business, operations, risk management, financial, accounting, regulatory and legal due diligence investigation of PayPal and responded to questions by eBay s board of directors. eBay s financial advisor reviewed the financial terms of the proposed merger and delivered advice relating to financial matters involving the transaction. Following that presentation, a representative of eBay s outside legal counsel described to eBay s board of directors the terms of the merger agreement and made a presentation concerning the fiduciary duties of eBay s directors in considering and approving the merger. After further deliberations, eBay s board of directors determined, among other things, that the terms and conditions of the merger were fair to and in the best interests of eBay and its stockholders and approved, with one director absent from the meeting and one director voting against, the merger, the merger agreement, the stockholders agreements and the employment agreements and the transactions contemplated thereby. eBay s board of directors also approved the issuance of a press release reporting eBay s results of operations for the quarter ended June 30, 2002.

In the afternoon of July 7, 2002, eBay and PayPal entered into the merger agreement.

Also on July 7, 2002, eBay and certain PayPal stockholders entered into stockholders agreements pursuant to which those PayPal stockholders each agreed to vote certain of their shares of PayPal common stock, representing in the aggregate approximately 27.7% of the outstanding PayPal common stock, for the proposal to approve and adopt the merger agreement and approve the merger. In addition, eBay and PayPal entered into employment agreements with Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, John Muller and Ryan Downs. For a discussion of these agreements, see Other Material Agreements Relating to the Merger on page 95.

On July 8, 2002, a joint press release was issued announcing the signing of the merger agreement.

PayPal s Reasons for the Merger; Recommendation of the PayPal Board

PayPal s Reasons for the Merger

PayPal s board of directors approved the merger agreement and the merger by a unanimous vote of those members considering the merger. In the course of reaching its decision to approve the merger agreement and the merger, PayPal s board of directors consulted with PayPal s management, as well as its outside legal counsel and its financial advisor. At its meeting on July 7, 2002, PayPal s board of directors:

determined that the merger is advisable, and is fair and in the best interests of PayPal and its stockholders;

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- determined that the exchange ratio is fair from a financial point of view to PayPal s stockholders;
- approved the merger agreement and the merger;
- directed the merger agreement be submitted for consideration by PayPal s stockholders; and
- recommended that PayPal s stockholders vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

One of PayPal s directors was not present at this meeting.

PayPal s board of directors identified and considered a variety of potential positive factors in its deliberations concerning the merger agreement and the merger, including without limitation the following, each of which, individually and in the aggregate, in the opinion of the board, supported its decision:

- PayPal s and eBay s financial condition, results of operations, business quality, prospects and businesses as separate entities and on a combined basis, including:
  - the revenues, cash flows and operating margins of PayPal, eBay and the pro forma projected earnings of the combined company; and
  - the recent and historical stock price performance of PayPal s common stock and eBay s common stock;
- the strategic nature of the merger and increased opportunity for growth;
- the increased ability of the combined company to manage PayPal s growth and international expansion;
- the fact that PayPal actively tested the market for an acquisition of the business in the winter and spring of 2001, and the results of the market test and the periods since then indicated that there have not been any proposals from any company other than eBay to merge with or acquire PayPal or any other attractive proposals for any other transactions with PayPal;
- the possible alternatives to the merger, including to operate PayPal as an independent company and the associated risks in light of: (1) the possibility of an impairment of PayPal s ability to process payments for online auctions; (2) changes to card association rules; (3) losses due to fraud and disputes between senders and recipients; and (4) PayPal s status under state, federal and international financial services regulation, including the uncertain legal status of PayPal s processing for online gambling-related businesses;
- the opportunity for PayPal s stockholders to participate in a larger company with a more liquid market for its stock and, as stockholders of the combined company, to participate in any increases in the value of its business following the merger;
- the fact that the exchange ratio would enable PayPal s stockholders after the merger to own approximately 8% of the common stock of the combined company;
- the intrinsic value and historical market prices of PayPal s common stock and the fact that the exchange ratio (based on eBay s trading price at the close of business of July 5, 2002, the last trading day before PayPal s board of directors approved the merger agreement) to be paid by eBay in the merger represented a premium of:
  - 18% to PayPal s trading price at the close of business on July 5, 2002;
  - 24% over the price of PayPal common stock sold in a secondary offering on June 27, 2002;
  - 82% over the price of PayPal common stock in PayPal s initial public offering on February 15, 2002; and
  - 9% over the average trading price since the initial public offering;

- the directors belief that the consideration to be paid by eBay in the merger represented the highest price per share that could be negotiated with eBay;

- the presentation of Morgan Stanley to PayPal s board of directors on July 7, 2002, including the opinion of Morgan Stanley presented to PayPal s board of directors to the effect that, as of July 7, 2002 and based on and subject to the considerations in its opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to holders of shares of PayPal common stock (See Opinion of PayPal s Financial Advisor on page 70);

- the likely ability to complete the merger as a reorganization for United States federal income tax purposes in which PayPal stockholders generally would not recognize any gain or loss, except for any gain or loss realized in connection with any cash received for fractional shares of eBay s common stock (See Material Federal Income Tax Consequences on page 76);

- the financial and non-financial terms and conditions of the merger agreement, including:

  - the merger consideration;

  - the fact that certain types of adverse developments are not considered in whether the conditions to eBay s obligation to complete the merger have been satisfied;

  - the fact that eBay s obligation to complete the merger is not conditioned on eBay s receipt of any financing;

  - the right of PayPal s board of directors, in connection with the discharge of their fiduciary duties to PayPal and its stockholders or in response to certain unsolicited alternative acquisition proposals, to withdraw, modify or qualify its recommendation to PayPal s stockholders to approve the merger agreement and pursue a competing transaction with another party, and the financial consequences of such withdrawal, modification or qualification; and

  - the absence of any right of eBay to terminate the merger agreement if the value of a share of eBay common stock rises above a particular level prior to the consummation of the merger.

PayPal s board of directors also identified and considered a variety of potentially adverse factors in its deliberations concerning the merger agreement and the merger, including the following:

- the risk that the potential benefits sought in the merger might not be fully realized;

- the possibility that the merger might not receive regulatory clearance from the appropriate government agencies;

- the possibility that the merger might not be consummated and the potential adverse effects of the public announcement of the merger on:

  - PayPal s operating results;

  - PayPal s ability to attract and retain key employees; and

  - PayPal s overall competitive position;

- the risk that key personnel might not remain employees of the combined company following the merger;

- the absence of any right of PayPal to terminate the merger agreement if the value of eBay s common stock falls below any particular level prior to the merger; and

- that the consummation of the merger will preclude PayPal stockholders from participating in the future growth of PayPal as an independent public company.

PayPal s board of directors specifically considered that the inclusion in the merger agreement of the covenant prohibiting any solicitation by PayPal of alternative acquisition proposals and the $45 million termination fee payable to eBay in certain circumstances were each a prerequisite to eBay s willingness to

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enter into the transaction on the terms outlined above. PayPal s board of directors considered that while these provisions might have the effect of discouraging other offers, PayPal s board of directors retained the ability to negotiate with third parties expressing an unsolicited interest in PayPal after the announcement of the transaction, and PayPal s board of directors determined that the benefits to PayPal s stockholders of securing an agreement with eBay outweighed any potential detriment.

In view of the complexity and wide variety of information and factors, both positive and potentially adverse, considered by PayPal s board of directors, PayPal s board of directors did not find it practical to quantify, rank or otherwise assign relative or specific weights to the information and factors considered. In addition, PayPal s board of directors did not reach any specific conclusion with respect to the information and each of the factors considered, or any aspect of any particular factor, but, rather, conducted an overall analysis of the information and factors described above, including, among other things, by engaging in thorough discussions with PayPal s management and legal and financial advisors. In considering the information and factors described above, individual members of PayPal s board of directors may have given different weight to different information or factors. PayPal s board of directors considered all of the information and these factors as a whole and believed the information and factors supported its decision to approve the merger agreement and the merger. After taking into consideration all of the information and factors described above, PayPal s board of directors concluded that the merger was fair to, and in the best interests of, PayPal and its stockholders and that PayPal should proceed with the merger.

Recommendation of PayPal s Board of Directors

PayPal s board of directors believes that the merger is advisable, and is fair and in the best interests of PayPal and its stockholders and recommends that PayPal s stockholders vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

Opinion of PayPal s Financial Advisor

Morgan Stanley was engaged to render a financial opinion letter in connection with the merger. Morgan Stanley was selected based on its qualifications, expertise and reputation, as well as its understanding of the business and affairs of PayPal and because of its prior work for PayPal in connection with a potential sale by PayPal pursuant to the terms of a letter agreement dated December 5, 2000, which was superseded by the letter agreement dated April 7, 2002. On July 7, 2002, Morgan Stanley delivered its oral opinion, subsequently confirmed in writing, to the PayPal board of directors that, as of July 7, 2002 and subject to and based on the considerations in its opinion, the exchange ratio pursuant to the merger agreement was fair, from a financial point of view, to the holders of PayPal common stock.

The full text of Morgan Stanley s written opinion, dated as of July 7, 2002, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Morgan Stanley in rendering its opinion, is attached as Annex D to this proxy statement/prospectus. Holders of PayPal s common stock are urged to, and should, read this opinion carefully and in its entirety. Morgan Stanley s opinion is directed to the board of directors of PayPal, addresses only the fairness of the exchange ratio pursuant to the merger agreement from a financial point of view to the holders of PayPal common stock and does not address any other aspect of the acquisition or constitute a recommendation to any PayPal stockholder as to how to vote at the special meeting. This summary is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other information of PayPal and eBay;

reviewed certain internal financial statements and other financial and operating data concerning PayPal and eBay prepared by the management of PayPal and eBay, respectively, including in the case of PayPal and eBay, preliminary results for the quarter ended June 30, 2002;

reviewed certain financial projections prepared by the management of PayPal and eBay, respectively;

discussed the past and current operations and financial condition and the prospects of PayPal and eBay, including information relating to certain strategic, financial and operational benefits anticipated from the merger, with senior executives of PayPal and eBay, respectively;

reviewed the pro forma impact of the merger on eBay s earnings per share;

reviewed the reported prices and trading activity for the PayPal common stock and the eBay common stock;

compared the financial performance of PayPal and eBay and the prices and trading activity of the PayPal common stock and the eBay common stock with that of certain other comparable publicly-traded companies and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable transactions;

participated in discussions and negotiations among representatives of PayPal and eBay and their financial and legal advisors;

reviewed the merger agreement and certain related documents;

discussed with the management of PayPal the strategic rationale for the merger, including the existing and anticipated future relationship between PayPal and eBay; and

performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by Morgan Stanley for the purposes of its opinion. With respect to the financial projections, including information relating to certain strategic, financial and operational benefits anticipated from the merger that Morgan Stanley discussed with PayPal, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of PayPal and eBay. Morgan Stanley also relied without independent verification on the assessment by the management of PayPal on the strategic rationale for the merger, including their assessment of the existing and anticipated future relationship between PayPal and eBay. In addition, Morgan Stanley relied upon the assessment by the managements of PayPal and eBay of their ability to retain key employees of PayPal and eBay. Morgan Stanley also relied upon, without independent verification, the assessment by the managements of PayPal and eBay of the timing and risks associated with the integration of PayPal and eBay and the validity of, and risks associated with, PayPal s and eBay s existing and future technologies, services or business models.

In addition, Morgan Stanley assumed that the merger would be consummated in accordance with the terms set forth in the merger agreement, including that the merger would be treated as a tax-free reorganization, pursuant to the Internal Revenue Code of 1986. Morgan Stanley s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of, the date of its opinion.

The following is a brief summary of the material financial analyses performed by Morgan Stanley in connection with preparing its opinion. Some of these summaries of financial analyses include information presented in tabular format. In order to understand fully the financial analyses performed by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by Morgan Stanley.

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Trading Analysis

Morgan Stanley reviewed the implied premium over PayPal s stock price based on eBay s July 5, 2002 closing price of $60.55 per share and using the exchange ratio of 0.39 from the merger agreement and noted the following:

	Price Per Share	Implied Premium(%)
1-Day prior (July 5, 2002 Close)	20.00	18.1
Last 10 Trading Days Average	19.71	19.8
1-Month Average	21.95	7.6
Average Since IPO	21.72	8.7
Secondary Offering Price (June 27, 2002)	19.00	24.3
IPO Price (February 15, 2002)	13.00	81.7

PayPal/eBay Relationship

Morgan Stanley analyzed PayPal s sensitivity to eBay s transaction revenues. To conduct this analysis, Morgan Stanley assumed that:

60% of PayPal s Gross Merchant Sales originated on the eBay network;

PayPal s net revenue from Gross Merchant Sales was 3.7% of Gross Merchant Sales and PayPal s gross margin was 53%, consistent with PayPal s net revenue and gross margin for the quarter ended March 31, 2002; and

PayPal continued to trade at 53.6x 2002 estimated cash earnings, the level at which PayPal was trading as of the close of market on July 5, 2002.

The following table summarizes the results of this analysis:

	Decrease in Estimated 2002 eBay Transaction Volume		
Implied Impact on PayPal s	5%	10%	15%
2002 Revenue(%)	(3.0)	(6.0)	(9.0)
2002 Earnings/Stock price(%)	(9.2)	(18.4)	(27.7)
Per Share Stock Price($)	(1.84)	(3.69)	(5.53)

Potential Value Creation

Morgan Stanley calculated the implied value of each share of PayPal common stock at the exchange ratio of 0.39 shares of eBay common stock for each share of PayPal common stock, assuming:

PayPal management estimates of 2003 cash earnings of $0.68 per share and IBES estimates of 2003 cash earnings of $1.11 for eBay;

a 2003 price to cash earnings multiple of 54.5x for eBay and a market capitalization weighted blended 2003 price to earnings ratio of 52.8x; and

synergies in 2003 based upon (decreases)/increases in PayPal standalone revenues of (5)%, 0%, 5% and 10%.

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The following table summarizes the results of this analysis:

Revenue Synergies equivalent to	Implied Value of One PayPal Share	
	Blended P/E	eBay s P/E
(5)% PayPal 2003 Revenue	$23.53	$24.30
0% PayPal 2003 Revenue	23.87	24.64
5% PayPal 2003 Revenue	24.21	24.99
10% PayPal 2003 Revenue	24.55	25.34

Pro Forma Merger Analysis

Morgan Stanley analyzed the financial impact of the merger on eBay s estimated earnings per share and cash earnings per share. Morgan Stanley s analysis was based on:

2003 cash earnings management estimates for PayPal of $0.68 per share and IBES estimates of 2003 cash earnings of $1.11 for eBay; and

synergies in 2003 based upon (decreases)/ increases in PayPal standalone revenues of (5)%, 0%, 5% and 10%.

This analysis indicated that, in all scenarios, the merger would be dilutive to eBay s 2003 estimated earnings per share and accretive to eBay s 2003 estimated cash earnings per share.

Trading Characteristics

Morgan Stanley analyzed trading characteristics of PayPal common stock and eBay common stock, including:

average daily trading ranges for PayPal and eBay common stock over selected periods, based on publicly available information; and

the relative liquidity of eBay and PayPal common stock, based on publicly available information.

Morgan Stanley observed among other findings, the following:

FactSet Daily Trading Range as % of Closing Prices

	1-Month	Since PayPal IPO	6-Month	1-Year
eBay	4.4	4.2	4.1	4.6
PayPal	8.0	7.7	N/A	N/A

FactSet Average Daily Turnover (in thousands of shares)

	1-Month	3-Month	6-Month	1-Year
eBay	3,395	3,048	3,035	3,438
PayPal	502	343	390(1)	N/A

(1) Since IPO date (February 15, 2002)

Comparative Stock Price Performance

Morgan Stanley reviewed the recent stock price performance of PayPal and eBay in terms of:

- stock price performance since February 15, 2002, the date PayPal became public;
- exchange ratio implied by the value of PayPal common stock and eBay common stock since February 15, 2002 and average over the same period; and

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implied premium at fixed exchange ratio of 0.39 shares of eBay common stock for each share of PayPal common stock since February 15, 2002

Precedent Transaction Analysis

Morgan Stanley performed an analysis of thirteen precedent transactions involving cash processing/payment services companies with announced deal values of over $50 million since January 1, 1998 (the Precedent Transactions) that shared characteristics with the merger to compare the multiple of projected earnings/ growth and the implied premium over previous day stock price indicated by the merger consideration to the same multiple and premia indicated for the Precedent Transactions. For each transaction, the acquired company s estimated earnings per share was based on IBES estimates of its earnings per share prior to announcement of the transaction.

The thirteen transactions constituting the Precedent Transactions were:

Acquiror	Acquiree
First Data Corp.	NYCE
U.S. Bancorp	NOVA Corp.
Concord EFS Inc.	Star Systems Inc.
Computer Sciences Corp.	Mynd Corp.
Concord EFS Inc.	Card Payment Systems
Ceridian Corp.	ABR Information Services Inc.
First Data Corp.	Paymentech LLC
DST Systems Inc.	USCS International Inc.
Bank of America	BA Merchant Services
Concord EFS Inc.	Electronic Payment Systems
NOVA Corp.	PMT Services Inc.
Associated First	SPS Payment Services
Viad Corp.	MoneyGram Payment Systems Inc.

The following table reflects the results of the analysis:

	Multiple of Projected Earnings/Growth	Premium over 1-Day Prior
PayPal/eBay Merger	1.6x	18.1x
Median of Precedent Transactions	1.3	22.0

No company or transaction used in the comparable transaction analyses is identical to PayPal or the merger. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning financial and operating characteristics of PayPal and other factors that could affect the public trading value of the companies to which they are being compared. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable transaction data or comparable company data.

In connection with the review of the acquisition by PayPal s board of directors, Morgan Stanley performed a variety of financial and comparative analyses for the purpose of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any particular analysis or factor considered by it. Furthermore, Morgan Stanley believes that selecting any portion of its analyses, without considering all of its analyses, would create an incomplete view of the process underlying its analyses and the opinion. In addition, Morgan Stanley may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley s view of the actual value of PayPal or eBay.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of PayPal or eBay. Any estimates contained in the analyses performed by Morgan Stanley are not

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necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

Such analyses were prepared solely as a part of Morgan Stanley s analysis of the fairness from a financial point of view to the holders of shares of PayPal common stock of the exchange ratio pursuant to the merger agreement and were provided to the PayPal board of directors in connection with the delivery of the Morgan Stanley opinion. The analyses do not purport to be appraisals of value or to reflect the prices at which PayPal or eBay might actually trade. In addition, as described above, the Morgan Stanley opinion was one of the many factors taken into consideration by the PayPal board of directors in making its determination to approve the merger agreement. The consideration to be paid to holders of shares of PayPal common stock pursuant to the merger agreement was determined through arm s-length negotiations between PayPal and eBay and was approved by the PayPal board of directors. Morgan Stanley did not recommend any specific consideration to PayPal or advise that any given consideration constituted the only appropriate consideration for the acquisition. Consequently, the Morgan Stanley analyses as described above should not be viewed as determinative of the opinion of the PayPal board of directors with respect to the value of PayPal or of whether the PayPal board of directors would have been willing to agree to different consideration.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the past, Morgan Stanley and its affiliates have provided financial advisory services for PayPal and have provided financial advisory and financing services for eBay and have received fees for the rendering of such services. In addition, Morgan Stanley and its affiliates may from time to time act as a counter-party to either PayPal or eBay and may have received compensation for such activities. In the ordinary course of its business, Morgan Stanley and its affiliates may, from time to time, trade in the securities and indebtedness of PayPal or eBay for its own accounts or the account of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities or indebtedness for any such account.

Pursuant to a letter agreement dated as of April 7, 2002, Morgan Stanley was formally retained to provide advice to PayPal s board of directors with regard to a potential transaction between PayPal and eBay. On July 3, 2002, PayPal informed Morgan Stanley about the new potential transaction and the parties agreed to continue the engagement of Morgan Stanley under the terms of the April 7, 2002 letter agreement to meet with PayPal s board of directors and provide a financial opinion in connection with any agreement reached between PayPal and eBay. PayPal agreed to pay Morgan Stanley a fee of $1,600,000 at the time such opinion was delivered.

PayPal also agreed to reimburse Morgan Stanley for expenses incurred by Morgan Stanley in performing its services. In addition, PayPal has also agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including liabilities under the federal securities laws, related to or arising out of Morgan Stanley s engagement and any related transactions.

eBay s Reasons for the Merger

eBay believes that its proposed acquisition of PayPal is a natural extension of eBay s trading platform and supports its mission to create an efficient global online marketplace. eBay is acquiring PayPal for the following reasons:

To create an overall better experience for eBay s users:

Ease of Use: The acquisition is intended to result in a simpler and less confusing purchasing process for buyers and sellers;

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Transaction Velocity: A better electronic payment solution is expected to increase the percentage of eBay transactions completed electronically which should result in faster payments to sellers and faster receipt of goods by buyers; and

Safety: Improved fraud detection and prevention for buyers and sellers using PayPal and eBay is intended to make eBay safer and more attractive to buyers.

An easier, faster, safer experience on eBay should make eBay more attractive for both buyers and sellers, which we expect to result in more transactions, revenue and income.

To continue to grow the reach of the combined company outside of eBay:

PayPal s non-eBay transactions represent the fastest growing portion of PayPal; and

Anticipated continued growth of business off-eBay will allow eBay to participate in and market to other areas of e-commerce.

To minimize losses and increase profits:

Reduce eBay s cost of billing and bad debt for its own services;

Reduce overlapping costs, including those associated with Billpoint; and

Reduce payouts for eBay s buyer protection programs because of better fraud protection.

Material Federal Income Tax Consequences

In the opinion of Sullivan & Cromwell and in the opinion of Kirkland & Ellis, the following are the material United States federal income tax considerations of the merger generally applicable to PayPal stockholders. These opinions and the following discussion are based on and subject to the Internal Revenue Code of 1986, as amended, or the Code, the regulations promulgated under the Code, existing interpretations and court decisions, all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of the discussion. This discussion does not address all aspects of United States federal income taxation that may be important to you in light of your particular circumstances or if you are subject to special rules, such as rules relating to:

stockholders who are not United States persons;

financial institutions;

tax exempt organizations;

insurance companies;

dealers in securities;

traders in securities that elect to use a mark-to-market method of accounting;

stockholders who acquired their shares of PayPal common stock pursuant to the exercise of employee stock options or otherwise acquired shares as compensation; and

stockholders who hold their shares of PayPal common stock as part of a hedge, straddle or other risk reduction, constructive sale or conversion transaction.

This discussion assumes you hold your shares of PayPal common stock as capital assets within the meaning of Section 1221 of the Code.

It is intended that the merger shall qualify as a reorganization under the provisions of Section 368(a) of the Code. eBay s and PayPal s obligations to complete the merger are conditioned on, among other things, eBay s receipt of an opinion from Sullivan & Cromwell and PayPal s receipt of an opinion from Kirkland & Ellis, each dated the closing date, to the effect that, on the basis of the facts, representations and assumptions set forth in the opinions, the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and that each of eBay, Vaquita Acquisition Corp. and PayPal will be a party to that reorganization within the meaning of Section 368(b) of the Code. The opinions of counsel will be based on the then-existing law, will assume the absence of changes in existing facts, will rely on customary assumptions and may rely on representations contained in certificates executed by officers of eBay and PayPal. The opinions neither bind the Internal Revenue Service, nor preclude them from adopting a contrary position, and it is possible that they may successfully assert a contrary position in litigation or other proceedings. Neither eBay nor PayPal intends to obtain a ruling from the Internal Revenue Service with respect to the tax consequences of the merger.

In the opinion of Sullivan & Cromwell and in the opinion of Kirkland & Ellis, assuming that the merger is consummated in accordance with the terms of the merger agreement and as described in this proxy statement/ prospectus and that the assumptions and representations described in the preceding paragraph are true and complete as of the effective date, the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and that each of eBay, Vaquita Acquisition Corp. and PayPal will be a party to that reorganization within the meaning of Section 368(b) of the Code. The following discussion assumes that the merger will be treated accordingly.

Tax Implications to PayPal s Stockholders

If you are a holder of PayPal common stock, your exchange of PayPal common stock for eBay common stock will have the following consequences to you:

Except as discussed below with respect to cash received in lieu of fractional shares, you will not recognize gain or loss for United States federal income tax purposes when you exchange your PayPal common stock solely for eBay common stock pursuant to the merger.

The aggregate tax basis of the eBay common stock you receive as a result of the merger will be the same as your aggregate tax basis in PayPal common stock you surrender in exchange for the eBay common stock, decreased by any amount of such tax basis that is allocable to a fractional share interest in PayPal common stock for which you receive cash instead of a fractional share of eBay common stock.

The holding period of the eBay common stock you receive as a result of the exchange will include the holding period of PayPal common stock you exchange in the merger.

If you receive cash in the merger instead of a fractional share interest in eBay common stock, you will be treated as having received the cash in redemption of the fractional share interest. Assuming that, immediately after the merger, you hold a minimal interest in eBay, you exercise no control over eBay and, as a result of the deemed redemption and after giving effect to certain constructive ownership rules, you experience an actual reduction in your interest in eBay, you will recognize capital gain or loss on the deemed redemption in an amount equal to the difference between the amount of cash received and your adjusted tax basis allocable to such fractional share. Otherwise, the cash payment may be taxable to you as a dividend. Any capital gain or loss will be long-term capital gain or loss if you have held your shares of PayPal common stock for more than one year at the time the merger is completed. Long-term capital gain of a non-corporate U.S. stockholder is generally subject to a maximum rate of 20%.

Tax Implications to eBay, PayPal and Vaquita Acquisition Corp.

None of eBay, PayPal or Vaquita Acquisition Corp. will recognize gain or loss for United States federal income tax purposes as a result of the merger.

The foregoing discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the merger. In addition, the discussion does not address tax consequences which may vary with, or are contingent on, your individual circumstances. Moreover, the discussion does not address any non-income tax or any foreign, state or local tax consequences of the merger. Accordingly, you are strongly urged to consult with your tax advisor to

determine the particular United States federal, state, local or foreign income or other tax consequences to you of the merger.

Accounting Treatment for the Merger

In accordance with United States generally accepted accounting principles, eBay will account for the merger using the purchase method of accounting.

Regulatory Matters

Antitrust Approvals

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and the rules and regulations thereunder, provide that certain merger transactions, including the merger, may not be consummated until required information and materials have been furnished to the Antitrust Division of the Department of Justice, or the DOJ, and the Federal Trade Commission, or the FTC, and certain waiting periods have expired or been terminated.

On July 18, 2002, eBay and PayPal filed their respective Pre-Merger Notification and Report Forms with the DOJ and the FTC under the HSR Act. Early termination of the required waiting period was granted on August 19, 2002.

On August 1, 2002, pursuant to Germany s Act against Restraints of Competition, eBay and PayPal jointly notified the German Federal Cartel Office of the proposed merger. The Act against Restraints of Competition and the rules and regulations thereunder provide that certain merger transactions, including the merger, may not be consummated until required information and materials have been furnished to the German Federal Cartel Office and a 30-day review period has expired or voluntarily been terminated prior to the expiration of the 30-day review period by the Federal Cartel Office as permitted under applicable German law. Voluntary termination of the review period was granted on August 21, 2002. eBay and PayPal are also required to make antitrust filings in Brazil. Antitrust clearance in Brazil is not required before the completion of the merger. On July 26, 2002, eBay and PayPal jointly notified the Brazilian antitrust authorities.

At any time before or after the merger, the DOJ, FTC or other national antitrust agencies could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including the DOJ, FTC or other national antitrust agencies seeking changes or restrictions in the operations of any of the assets or businesses of eBay or PayPal or their affiliates. Private parties and state attorneys general may also bring an action under the antitrust laws under certain circumstances. There can be no assurance that a challenge to the merger on antitrust grounds will not be made or, if such a challenge is made, that it would not be successful.

Other Regulatory Approvals

eBay is required to make filings under applicable money transmitter laws in the States of Arizona, Maryland and Vermont and the District of Columbia and to obtain required approvals in those jurisdictions prior to the completion of the merger. Prior filings by eBay and the necessary approvals are also required in other states in which PayPal is seeking to obtain money transmitter licenses if such licenses are granted before the completion of the merger. eBay and PayPal will also make similar filings in other jurisdictions if filings in those jurisdictions are required.

The merger is conditioned on all filings required to be made prior to the effective time of the merger by eBay and PayPal, or any of their respective subsidiaries, and all consents, registrations, approvals and authorizations required to be obtained prior to the effective time of the merger by eBay and PayPal or any of their respective subsidiaries from, any governmental entity in connection with the execution and delivery of the merger agreement and the completion of the merger and the other transactions contemplated by the merger agreement by eBay, PayPal and Vaquita Acquisition Corp. having been made or obtained, except that this condition will be deemed to have been satisfied unless the failure to make such notices, reports and other filings or obtain such consents, registrations, approvals, permits and authorizations, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on eBay or PayPal.

Federal Securities Laws Consequences

All shares of eBay common stock received by PayPal stockholders in the merger who are not affiliates of PayPal prior to the merger will be freely transferable. However, shares of eBay common stock received by persons who are deemed to be affiliates of PayPal prior to the merger may be resold by them only in transactions permitted by the resale provisions of Rule 145 under the Securities Act of 1933, or Rule 144 promulgated under the Securities Act in the case of such persons who become affiliates of eBay, or as otherwise permitted under the Securities Act. Persons deemed to be affiliates of PayPal are those individuals or entities that control, are controlled by, or are under common control with, PayPal. Affiliates generally include executive officers and directors of PayPal as well as certain principal stockholders of PayPal. This proxy statement/prospectus does not cover any resales of eBay common stock received by affiliates of PayPal in the merger.

Nasdaq National Market Listing

The shares of eBay common stock to be issued in the merger will be quoted on the Nasdaq National Market. If we complete the merger, PayPal common stock will no longer be registered under the Exchange Act or quoted on the Nasdaq National Market.

No Appraisal Rights

In accordance with Section 262 of the Delaware General Corporation Law, no appraisal rights are available to PayPal stockholders in connection with the merger.

Litigation Related to the Merger

Three purported class action complaints have been filed in the Court of Chancery in the State of Delaware in and for New Castle County by alleged stockholders of PayPal. Two additional purported class action complaints have been filed in the Superior Court of the State of California, County of Santa Clara by alleged PayPal stockholders. These complaints name as defendants PayPal and each member of its board of directors as well as eBay. The complaints are purported class actions that allege, among other things, that eBay controls PayPal, the defendants have breached fiduciary duties they assertedly owed to PayPal s stockholders in connection with PayPal entering into the merger agreement and the exchange ratio is unfair and inadequate. The plaintiffs in each lawsuit seek, among other things, an injunction against the consummation of the merger and an award of unspecified compensatory damages. We believe that each of the lawsuits is without merit and intend to defend ourselves vigorously.

Executives; Executive Compensation;

Stock Ownership of Directors, Executive Officers and Five Percent Stockholders

Information concerning current directors and officers of eBay, executive compensation and ownership of eBay common stock by eBay s management and principal stockholders is contained in eBay s Annual Report on Form 10-K as of December 31, 2001, including the information incorporated by reference from eBay s definitive proxy statement relating to eBay s 2002 Annual Meeting of Stockholders, and is incorporated herein by reference. See Where You Can Find More Information on page 165.

Information concerning current directors and executive officers of PayPal, executive compensation, certain relationships and related transactions and ownership of PayPal common stock by PayPal s management and principal stockholders is discussed below in Information About PayPal on page 98.

Interests of Certain Persons in the Merger

In considering the recommendations of PayPal s board of directors with respect to the merger, you should be aware that certain executive officers and members of the board of directors of PayPal have agreements or arrangements that provide them with interests in the merger that may be different from, or in addition to, the interests of the other stockholders of PayPal. PayPal s board of directors was aware of these agreements during its deliberations of the merits of the merger and in determining to recommend to PayPal stockholders that they vote for the proposal to approve and adopt the merger agreement and the merger.

Common Stock

As of August 28, 2002, the record date of the special meeting, the executive officers and directors of PayPal and their affiliates beneficially owned an aggregate of 22,482,091 shares, or 36.5%, of outstanding PayPal common stock, which will be treated in the merger in the same manner as shares of PayPal common stock held by other stockholders of PayPal.

eBay Employment Agreements

In connection with the merger agreement, eBay and PayPal entered into employment agreements with each of Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, John Muller and Ryan Downs, who are all PayPal executives. For a discussion of these employment agreements, see Other Material Agreements Relating to the Merger eBay Employment Agreements on page 96.

PayPal s Stock Options and Performance Awards

When the merger occurs, the vesting of all outstanding options issued pursuant to PayPal s 1999 Stock Plan, 2001 Equity Incentive Plan and the Confinity 1999 Stock Plan will accelerate. The number of shares which accelerate and vest immediately upon the occurrence of the merger will be the lesser of (1) 25% of the total number of shares subject to an option or restricted stock grant or (2) the remaining unvested options or shares of restricted stock.

The following table shows the number of shares of PayPal common stock subject to outstanding options and the number of shares of restricted stock in each case held by PayPal executive officers and directors whose exercisability, in the case of options, and vesting, in the case of restricted stock, will accelerate as a result of the merger. PayPal s executive officers and directors also hold in the aggregate options to purchase 543,599 shares of PayPal common stock that are currently vested and exercisable. At the effective time of the merger, each outstanding PayPal stock option under PayPal s stock option plans will be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under the PayPal stock option, the number of shares of eBay common stock equal to the number of shares of PayPal common stock that were issuable upon exercise of the PayPal stock option immediately prior to the effective time of the merger multiplied by the exchange ratio (rounded down to the nearest whole number), at a price per share (rounded up to the nearest whole cent) equal to the exercise price per share at which the PayPal stock option was exercisable immediately prior to the effective time divided by the exchange ratio.

	Number of shares subject to options that accelerate as a result of the merger	Number of shares of restricted stock that accelerate as a result of the merger
Peter A. Thiel Chief Executive Officer and President	416,666	309,876
Max R. Levchin Chief Technology Officer	416,666	141,126
David O. Sacks Chief Operating Officer	63,999	90,980
Reid G. Hoffman Executive Vice President	12,500	
Roelof F. Botha Chief Financial Officer	79,167	11,978
John C. Dean Director	16,667	
Timothy M. Hurd Director	16,667	
John A Malloy Director	16,667	
Shailesh J. Mehta Director	16,667	
Michael J. Moritz Director	16,667	
Elon R. Musk Director	16,667	

If the effective time of the merger had been June 30, 2002, an option held by an executive officer or director of PayPal to purchase 100 shares of PayPal common stock at $1 per share would have been converted into an option to purchase 39 shares of eBay common stock at $2.5640 per share.

Outstanding Officer Loan

In April 2000, PayPal assumed a loan of $70,000 at an interest rate of 9% per annum payable by Roelof F. Botha, PayPal s Chief Executive Officer, to his former employer. Mr. Botha has agreed to repay this loan as a single payment in June 2004 or at such time as he ceases to be an employee of PayPal, if sooner. PayPal forgave 25% of the loan in June 2001, another 25% in June 2002, and has agreed to forgive the remainder in 25% increments in June 2003 and June 2004. The merger will accelerate Mr. Botha s loan forgiveness and when the merger occurs PayPal will forgive the entire remaining amount of Mr. Botha s loan. If this loan forgiveness would constitute a parachute payment under Section 280G of the Internal Revenue Code of 1968, the combined company will reimburse Mr. Botha for the Federal excise taxes that are imposed as a result of the loan forgiveness plus the additional taxes due on the reimbursement.

Employee Benefits

Please refer to The Merger Agreement Effect on Benefit Plans on page 89 for a discussion of the employee benefits to be provided to PayPal employees, including any executive officers, who remain at the combined company following the merger.

Stockholders Agreements

In connection with the merger agreement, eBay entered into stockholders agreements with each of Peter A. Thiel, Max R. Levchin, David O. Sacks and Roelof F. Botha, Reid G. Hoffman, Elon R. Musk and James E. Templeton, who are all PayPal executives. For a discussion of these stockholders agreements, see Other Material Agreements Relating to the Merger Stockholders Agreements on page 95.

Indemnification and Insurance

Pursuant to the merger agreement, eBay has agreed that, after the effective time of the merger, it will provide certain indemnification and liability insurance benefits to present and former directors and officers of PayPal. See The Merger Agreement Indemnification and Insurance on page 94.

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The Merger Agreement

This section of the proxy statement/prospectus describes the material provisions of the merger agreement. Because the description of the merger agreement contained in this proxy statement/prospectus is a summary, it does not contain all of the information that may be important to you. You should carefully read the entire copy of the merger agreement attached as Annex A to this proxy statement/prospectus, which is hereby incorporated into this proxy statement/prospectus by reference, before you decide how to vote.

Structure of the Merger

The merger agreement provides for the merger of Vaquita Acquisition Corp., a newly-formed and wholly-owned subsidiary of eBay, into PayPal. After the merger, PayPal will become a wholly-owned subsidiary of eBay.

Completion and Effectiveness of the Merger

We will complete the merger as promptly as practicable, but in no event later than the fifth business day, after the last of the conditions to completion are satisfied or waived, or at such other time or date as PayPal and eBay may agree in writing.

The merger will become effective at the time when the certificate of merger has been filed with and accepted by the Secretary of the State of Delaware. We anticipate that the filing will be made simultaneously with, or as soon as practicable after, the closing of the merger.

Conversion of PayPal Common Stock in the Merger

Each share of PayPal common stock issued and outstanding immediately before the effective time of the merger, other than shares owned by eBay, Vaquita Acquisition Corp. or any other direct or indirect subsidiary of eBay or shares that are owned by PayPal or its direct or indirect subsidiaries that in each case are not held on behalf of third parties, will automatically convert into the right to receive 0.39 of a share of eBay common stock. eBay will not issue any fractional shares. Instead, you will receive a cash payment in accordance with the terms of the merger agreement, as described below in Fractional Shares .

Exchange Procedures

Promptly after the effective time of the merger, Mellon Investor Services LLC, the exchange agent for the merger, will mail to you a letter of transmittal and instructions for surrendering your PayPal stock certificates in exchange for eBay stock certificates, any cash in lieu of fractional shares and any unpaid dividends and distributions to which you are entitled. When you surrender a PayPal stock certificate in the manner provided in the merger agreement, you will be entitled to receive a certificate representing the number of whole shares of eBay common stock that you are entitled to receive, a check in the amount, after giving effect to any required tax withholdings, of any cash in lieu of fractional shares and any unpaid dividends and distributions as contemplated by the merger agreement. No interest will be paid or accrued on any amount payable upon due surrender of the certificates.

You should not send stock certificates with your proxy card and should not surrender stock certificates prior to the adoption and approval of the merger agreement by the stockholders of PayPal and the receipt of a transmittal form.

Fractional Shares

Each PayPal stockholder who would otherwise have been entitled to receive a fraction of a share of eBay common stock will receive cash, without interest, in an amount equal to such stockholder s proportionate interest in the net proceeds from the sale by the exchange agent on behalf of all such

stockholders of the aggregate fractional shares of eBay common stock that such stockholders otherwise would be entitled to receive.

Dividends and Distributions

All shares of eBay common stock to be issued pursuant to the merger shall be deemed issued and outstanding as of the effective time of the merger. Whenever a dividend or other distribution is declared by eBay in respect of eBay common stock, and the record date for the dividend or distribution is on or after the date of the effective time of the merger, the declaration will include such dividends or other distributions in respect of all eBay common stock issued or issuable pursuant to the merger agreement. No dividends or other distributions with respect to eBay common stock will be paid to you if you do not surrender your PayPal stock certificate.

Transfer of Ownership and Lost Stock Certificates

If your PayPal stock certificate has been lost, stolen or destroyed, you may need to deliver an affidavit or bond prior to receiving your eBay stock certificate.

PayPal s Representations and Warranties

PayPal made a number of representations and warranties to eBay in the merger agreement. These representations and warranties include representations as to:

- corporate organization, good standing and qualification to do business of PayPal and its subsidiaries;
- the certificate of incorporation and bylaws of PayPal and its subsidiaries;
- PayPal s capital structure;
- authorization of the merger agreement by PayPal;
- enforceability of the merger agreement;
- the fairness opinion received by PayPal from Morgan Stanley;
- governmental consents, filings and regulatory approvals necessary to complete the merger;
- state bill payer, check casher, money transmitter and similar laws;
- the merger not conflicting with the organizational documents or material contracts of PayPal or its subsidiaries or applicable laws;
- contracts that limit the type of business in which PayPal or its subsidiaries may engage or the manner or locations in which any of them may so engage in any business;
- PayPal s filings with the SEC, including financial statements, and the accuracy of the information contained therein;
- absence of certain changes, events or material adverse effects involving PayPal or its subsidiaries since December 31, 2001;
- dividends or other distributions by PayPal;
- litigation and liabilities involving PayPal or its affiliates;

employee benefit plans and employment agreements of PayPal and its subsidiaries;

compliance with laws and regulatory matters by PayPal and its subsidiaries;

PayPal Asset Management s registration as an investment adviser ;

the status of PayPal and its subsidiaries as a broker or dealer under the Exchange Act;

the inapplicability of state takeover statutes;

environmental matters relating to PayPal and its subsidiaries;

taxes and tax matters relating to PayPal and its affiliates and subsidiaries;

PayPal s and its subsidiaries labor relations;

PayPal s and its subsidiaries insurance;

intellectual property matters involving PayPal and its subsidiaries;

PayPal s and its subsidiaries privacy policies;

intercompany restrictions; and

brokers and finders.

eBay s Representations and Warranties

eBay and Vaquita Acquisition Corp. each made a number of representations and warranties to PayPal in the merger agreement. These representations and warranties include representations as to:

capitalization of Vaquita Acquisition Corp.;

corporate organization, good standing and qualification to do business of eBay, Vaquita Acquisition Corp. and eBay s significant subsidiaries;

the certificate of incorporation and bylaws of eBay and its significant subsidiaries;

eBay s capital structure;

authorization of the merger agreement by eBay;

enforceability of the merger agreement;

receipt of a fairness opinion;

eBay common stock to be issued pursuant to the merger;

governmental consents, filings and regulatory approvals necessary to complete the merger;

the merger not conflicting with the organizational documents or material contracts of eBay or its significant subsidiaries or applicable laws;

eBay s filings with the SEC, including financial statements, and the accuracy of the information contained therein;

absence of certain changes, events or material adverse effects involving eBay or its subsidiaries since December 31, 2001;

litigation and liabilities involving eBay or its affiliates;

compliance with laws and regulatory matters by eBay and eBay s significant subsidiaries;

- taxes and tax matters relating to eBay and its affiliates and significant subsidiaries;
- intellectual property matters involving eBay and its subsidiaries; and
- brokers and finders.

The representations and warranties contained in the merger agreement are complicated and not easily summarized. You are urged to read carefully Sections 5.1 and 5.2 of the merger agreement attached hereto as Annex A entitled Representations and Warranties of the Company and Representations and Warranties of Parent and Merger Sub .

PayPal s Conduct of Business Before Completion of the Merger

Pursuant to the terms of the merger agreement, PayPal has agreed that, until the effective time of the merger, or unless eBay approves in writing, PayPal s business will be conducted in all material respects in the ordinary course consistent with past practice and PayPal will use its commercially reasonable efforts to:

- preserve its present business organization intact; and
- maintain its existing relations and goodwill with customers, suppliers, distributors, creditors, lessors, employees and business associates consistent with past practice.

In addition, PayPal has also agreed that, until the effective time of the merger, subject to specified exceptions, it will not:

- issue, sell, pledge, dispose of or encumber any capital stock owned by it in any of its subsidiaries;
- amend its certificate of incorporation or bylaws;
- split, combine or reclassify its outstanding shares of capital stock;
- declare, set aside or pay any dividend other than dividends from its direct or indirect wholly-owned subsidiaries;
- repurchase, redeem or otherwise acquire shares of capital stock or any securities convertible into or exchangeable or exercisable for any shares of its capital stock; or
- permit any of its subsidiaries to purchase or otherwise acquire any shares of its capital stock or any securities convertible into or exchangeable or exercisable for any shares of its capital stock.

PayPal has also agreed that, until the effective time of the merger, subject to specified exceptions, it will not, and none of its subsidiaries will:

- issue, sell, pledge, dispose of or encumber any shares of, or securities convertible into or exchangeable or exercisable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of its capital stock of any class or any other property or assets, other than shares issuable pursuant to options outstanding on July 7, 2002 under PayPal s stock option plans, shares issuable pursuant to PayPal s employee stock purchase plan and shares issuable pursuant to PayPal s warrants and grants to certain new employees of PayPal, provided that such grants do not exceed in the aggregate 500,000 shares per quarter without the prior consent of eBay, which may not be unreasonably withheld or delayed;
- other than in the ordinary and usual course of business, transfer, lease, license, guarantee, sell, mortgage, pledge, dispose of or encumber any other property or assets or incur or modify any material indebtedness or other liability;
- make or authorize or commit for any capital expenditures other than as set forth in a schedule to the merger agreement;
- make any acquisition of, or investment in, assets or stock of or other interest in, any other person or entity;
- enter into any contract the terms of which contemplate material changes in the obligations, rights or responsibilities of any party thereto or any terms therein after giving effect to the merger;
- enter into, modify, amend or terminate any material contract except in the ordinary course consistent with past practice or without the prior consent of eBay, which may not be unreasonably withheld or delayed;
- enter into or amend any contract for payment processing without the prior consent of eBay, which may not be unreasonably withheld or delayed;

- enter into any non-competition contracts or other contracts that purport to limit in any respect either the type of business in which it (or, after giving effect to the merger, eBay or its subsidiaries) may engage or the manner or locations in which any of them may so engage in any business;
- enter into any partnership, joint venture, strategic alliance, revenue or profit sharing agreement or similar arrangement with any person;
- change or modify its line of business from the line of business in which it is engaged as of July 7, 2002 or enter into any new line of business;
- terminate, establish, adopt, enter into, make any new grants or awards under, amend or otherwise modify, any benefit plans, amend or modify the terms of any PayPal stock options or increase the salary, wage, bonus or other compensation of any employees, except for increases in salary, wages, bonuses or other compensation of non-executive employees made in the ordinary course of business consistent with past practice and certain grants of options to new employees of PayPal pursuant to PayPal s stock option plans;
- commence any litigation or arbitration proceeding or any regulatory or other governmental action or proceeding with or before any governmental entity other than ordinary contract and commercial litigation that PayPal does not reasonably expect to result in total costs to PayPal in excess of $300,000 and except for litigation to which eBay consents, which consent may not be unreasonably withheld or delayed;
- settle or compromise any material claims or litigation without the prior consent of eBay, which may not be unreasonably withheld or delayed;
- waive, release or assign any material rights or claims without the prior consent of eBay, which may not be unreasonably withheld or delayed; and
- make any material tax election or permit any material insurance policy naming it as a beneficiary or loss-payable payee to be cancelled or terminated except in the ordinary and usual course of business.

No Solicitation of Acquisition Proposals by PayPal

The merger agreement provides that neither PayPal nor any of its subsidiaries nor any of the officers and directors of PayPal or its subsidiaries will, and that it will not authorize or knowingly permit its and its subsidiaries employees, agents and representatives to directly or indirectly:

- initiate, solicit, knowingly encourage or facilitate any inquiries or the making of any proposal or offer with respect to an acquisition proposal; and
- engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person relating to an acquisition proposal or otherwise entertain or knowingly facilitate any effort or attempt to make or implement an acquisition proposal.

Under the merger agreement, an acquisition proposal is a merger, reorganization, share exchange, consolidation or similar transaction involving, or any purchase of all or any material portion of the assets of, or 20% or more of the equity securities in, PayPal or any of its subsidiaries.

The merger agreement does not prevent PayPal or its board of directors or its officers, employees, agents or representatives from complying with Rule 14e-2 promulgated under the Exchange Act with regard to an acquisition proposal or making any disclosure required by applicable law.

The merger agreement does not prevent PayPal or its board of directors or its officers, employees, agents or representatives from doing the following:

- at any time prior, but not after, the stockholders meeting is convened, providing information in response to a request therefor by a person who has made an unsolicited bona fide written acquisition proposal if the board of directors receives from the person requesting such information an executed confidentiality agreement on terms substantially similar to those contained in the confidentiality agreement provided for in the merger agreement;

engaging in any negotiations or discussions with any person who has made an unsolicited bona fide written acquisition proposal; or

recommending such an acquisition proposal to the stockholders of PayPal;

if, in each case, PayPal s board of directors determines in good faith, after consultation with its outside legal counsel, that such action is necessary in order for its directors to comply with their fiduciary duties and the board of directors determines in good faith, after consultation with its financial advisor, that the acquisition proposal is, or is reasonably likely to result in, a superior proposal.

Under the merger agreement, a superior proposal is an acquisition proposal that, if accepted, would be reasonably likely to be completed, taking into account the legal, financial and regulatory aspects of the proposal, and would, if completed, result in a transaction more favorable to PayPal s stockholders from a financial point of view than the transaction contemplated by the merger agreement.

In addition, PayPal has agreed, pursuant to the merger agreement, that it will:

immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted prior to July 7, 2002 with respect to any acquisition proposal;

take the necessary steps to promptly inform its subsidiaries and any officers or directors of PayPal or its subsidiaries of the obligations with respect to acquisition proposals and in the confidentiality agreement;

notify eBay immediately if any inquiries, proposals or offers are received by, any such information is requested from, or any discussions or negotiations are sought to be initiated or continued with, any of its representatives indicating, in connection with such notice, the name of such person and the material terms and conditions of any proposals or offers; and

promptly request each person that has prior to the date of the merger agreement executed a confidentiality agreement in connection with its consideration of acquiring it or any of its subsidiaries to return or destroy all confidential information furnished to such person by or on behalf of it or any of its subsidiaries.

The merger agreement provides that PayPal will take, in accordance with applicable law and its certificate of incorporation and bylaws, all action necessary to call, hold and convene a meeting of holders of PayPal common stock as promptly as reasonably practicable after the registration statement of which this proxy statement/prospectus forms a part is declared effective to consider and vote upon the approval of the merger agreement. Except on the determination of the occurrence of a superior proposal and during such time as there remains a superior proposal or as PayPal s board of directors may determine in good faith, after consultation with its outside legal counsel, in order to comply with its fiduciary duties under applicable law, PayPal s board of directors will recommend such approval, PayPal s board of directors will not amend, modify, withdraw, condition or qualify such recommendation and will take all lawful action to solicit such approval. PayPal has agreed that it will provide eBay with at least 48 hours prior notice of PayPal s board of directors intention to make any such amendment, modification, withdrawal, condition or qualification, except that such notice will not be required to the extent that PayPal s board of directors determines, after consultation with its outside legal counsel, that such notice violates its fiduciary duties or would cause PayPal to violate any applicable law. PayPal s obligation to convene the stockholders meeting will not be limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any acquisition proposal, or by any change of recommendation of PayPal s board of directors. The merger agreement provides that PayPal will not submit to the vote of its stockholders any acquisition proposal or propose to do so.

Effect on PayPal Stock Options

At the effective time of the merger, each outstanding PayPal stock option under PayPal s stock option plans, whether vested or unvested, will be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under the PayPal stock option, the number of shares of eBay common stock equal to the number of shares of PayPal common stock that were issuable upon exercise of the PayPal stock option immediately prior to the effective time of the merger multiplied by the exchange ratio (rounded down to the nearest whole number), at a price per share (rounded up to the nearest whole cent) equal to the exercise price per share at which the PayPal stock option was exercisable immediately prior to the effective time divided by the exchange ratio.

However, in the case of any PayPal incentive stock option, the option price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option will be determined in accordance with the merger agreement, but are subject to adjustments necessary in order to satisfy the requirements of Section 424(a) of the Internal Revenue Code.

Effective at the effective time of the merger, eBay will assume each PayPal stock option in accordance with the terms of the PayPal stock option plan under which it was issued and the stock option agreement by which it is evidenced. As soon as practicable after the effective time of the merger but in no event later than seven days after the closing date, eBay will file a registration statement on Form S-3 or Form S-8 with respect to the eBay common stock subject to the PayPal stock options, and will use its commercially reasonable efforts to maintain the effectiveness of such registration statement for so long as the PayPal stock options remain outstanding.

Effect on PayPal Warrants

At the effective time of the merger, each outstanding warrant issued by PayPal will be deemed to constitute a warrant to acquire, on the same terms and conditions as were applicable under the PayPal warrant, the number of shares of eBay common stock equal to the number of shares of PayPal common stock that were issuable upon exercise of the PayPal warrant immediately prior to the effective time of the merger multiplied by the exchange ratio (rounded up to the nearest whole number), at a price per share (rounded down to the nearest whole cent) equal to the exercise price per share at which the PayPal warrant was exercisable immediately prior to the effective time of the merger divided by the exchange ratio.

Effect on Benefit Plans

Subject to any necessary transition periods (during which eBay will cause PayPal to maintain its applicable existing welfare plans), from and after the effective time of the merger, eBay will provide PayPal employees who become employees of eBay or any of its subsidiaries or remain employees of PayPal with employee welfare and pension benefits no less favorable than those provided to similarly situated employees of eBay and its subsidiaries. In addition, eBay will cause each employee welfare and pension benefit plan, program, policy or arrangement of eBay in which employees of PayPal become eligible to participate to take into account for purposes of eligibility and vesting thereunder the service of such employees with PayPal to the same extent as such service was credited for such purpose by PayPal.

When employees of PayPal become eligible to participate in a medical, dental or health plan of eBay, to the extent permissible under such benefit plan, eBay will cause each plan to waive any preexisting condition limitations to the extent those conditions were covered under the applicable PayPal benefit plan and waive any waiting period limitation or evidence of insurability requirement which would otherwise be applicable to such employee on or after the effective time of the merger to the extent such employee had satisfied any similar limitation or requirement under an analogous PayPal benefit plan prior to the effective time of the merger.

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eBay has also agreed with PayPal to grant options to purchase approximately 1.2 million shares of eBay common stock to existing PayPal employees to encourage their continued employment following the completion of the merger.

Conditions to Completion of the Merger

The obligations of eBay and PayPal to complete the merger are subject to the satisfaction or waiver, at or prior to the effective time of the merger, of each of the following conditions:

the merger agreement must have been approved by the holders of a majority of the outstanding shares of PayPal common stock in accordance with applicable law and PayPal s certificate of incorporation and bylaws;

the waiting period applicable to the consummation of the merger under the Hart-Scott-Rodino Act must have expired or been terminated;

no court or governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any statute, law, ordinance, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement, and no governmental entity has instituted any proceeding seeking any such order;

the registration statement of which this proxy statement/prospectus is a part must have become effective under the Securities Act, no stop order suspending the effectiveness of the registration statement has been issued, and no proceeding for that purpose has been initiated or threatened, by the SEC; and

eBay must have received all state securities and blue sky permits and approvals necessary to consummate the transactions contemplated by the merger agreement.

PayPal s obligation to complete the merger is also subject to the satisfaction or waiver by PayPal at or prior to the effective time of the merger of the following conditions, among others:

the representations and warranties of eBay and Vaquita Acquisition Corp. set forth in the merger agreement must be true and correct as of July 7, 2002, and as of the closing date as if made on the closing date, in each case without regard to any materiality qualification contained in the particular representation or warranty, except that this condition will be deemed to have been satisfied even if the representations or warranties are not so true and correct unless the failure of the representations or warranties to be so true and correct, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on eBay;

eBay and Vaquita Acquisition Corp. must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing date;

since July 7, 2002, there must not have been any change in the financial condition, properties, prospects, business or results of operations of eBay and its significant subsidiaries or any development or combination of developments that, individually or in the aggregate, has had or is reasonably likely to have, individually or in the aggregate, a material adverse effect on eBay;

other than the filing of the certificate of merger with the Secretary of State of Delaware, all notices, reports and other filings required to be made prior to the effective time of the merger by eBay or any of its subsidiaries with, and all consents, registrations, approvals, permits and authorizations required to be obtained prior to the effective time by eBay or any of its subsidiaries from, any governmental entity in connection with the execution and delivery of the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement by PayPal, eBay and Vaquita Acquisition Corp. must have been made or obtained, except that this condition will be deemed to have been satisfied unless the failure to make such notices, reports and

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other filings or obtain such consents, registrations, approvals, permits and authorizations, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on eBay;

PayPal must have received the opinion of Kirkland & Ellis, counsel to PayPal, dated the closing date, to the effect that the merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of eBay, Vaquita Acquisition Corp. and PayPal will be a party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code; and

the shares of eBay common stock to be issued pursuant to the merger agreement must have been authorized for listing on the Nasdaq National Market upon official notice of issuance.

eBay s and Vaquita Acquisition Corp. s obligation to complete the merger is also subject to the satisfaction or waiver by eBay at or prior to the effective time of the merger of the following conditions, among others:

the representations and warranties of PayPal set forth in the merger agreement must be true and correct as of July 7, 2002 and as of the closing date as if made on the closing date, in each case without regard to any materiality qualification contained in such representation or warranty, except this condition will be deemed to have been satisfied even if such representations or warranties are not so true and correct unless the failure of such representations or warranties to be so true and correct, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on PayPal;

PayPal must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing date;

since July 7, 2002, there must not have been any change in the financial condition, properties, prospects, business or results of operations of PayPal and its subsidiaries or any development or combination of developments that, individually or in the aggregate, has had or is reasonably likely to have, individually or in the aggregate, a material adverse effect on PayPal;

other than the filing of the certificate of merger with the Secretary of State of Delaware, all notices, reports and other filings required to be made prior to the effective time of the merger by PayPal or eBay or any of their respective subsidiaries with, and all consents, registrations, approvals, permits and authorizations required to be obtained prior to the effective time of the merger by PayPal or eBay or any of their respective subsidiaries from, any governmental entity in connection with the execution and delivery of the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement by PayPal, eBay and Vaquita Acquisition Corp. must have been made or obtained, except that this condition will be deemed to have been satisfied unless the failure to make such notices, reports and other filings or obtain such consents, registrations, approvals, permits and authorizations, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on PayPal; and

eBay must have received the opinion of Sullivan & Cromwell, counsel to eBay, dated the closing date, to the effect that the merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of eBay, Vaquita Acquisition Corp. and PayPal will be a party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code.

Determination of Material Adverse Effect

Under the terms of the merger agreement, an eBay material adverse effect is defined to mean a material adverse effect on the condition (financial or otherwise), prospects, business or results of operations of eBay and its significant subsidiaries taken as a whole or an effect that could prevent or materially burden or materially impair the ability of eBay or Vaquita Acquisition Corp. to consummate the

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transactions contemplated by the merger agreement, except that the following are excluded from the definition of eBay material adverse effect and from the determination of whether such an eBay material adverse effect has occurred:

- the effects of conditions or events resulting from general financial, political, economic or market conditions (including the suspension of trading in securities on the Nasdaq National Market);
- any change in the trading prices or volumes of the capital stock of eBay;
- the effects of conditions or events resulting from an outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war or the occurrence of any other calamity or crisis, including the occurrence of a terrorist attack;
- any change resulting from the entry into the merger agreement or the announcement of the transactions contemplated by the merger agreement or the performance of the merger agreement and the covenants set forth therein; and
- any change resulting from the actions of PayPal.

Under the terms of the merger agreement, a PayPal material adverse effect is defined to mean a material adverse effect on the condition (financial or otherwise), prospects, business or results of operations of PayPal and its subsidiaries taken as a whole or an effect that could prevent or materially burden or materially impair the ability of PayPal to consummate the transactions contemplated by the merger agreement, except that the following are excluded from the definition of PayPal material adverse effect and from the determination of whether such a PayPal material adverse effect has occurred:

- the effects of conditions or events resulting from general financial, political, economic or market conditions (including the suspension of trading in securities on the Nasdaq National Market);
- any change in the trading prices or volumes of the capital stock of PayPal;
- the effects of conditions or events resulting from an outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war or the occurrence of any other calamity or crisis, including the occurrence of a terrorist attack;
- any change resulting from the entry into the merger agreement or the announcement of the transactions contemplated by the merger agreement or the performance of the merger agreement and the covenants set forth therein; and
- any change resulting from the actions of eBay.

Waiver and Amendment of the Merger Agreement

Subject to the provisions of the applicable law, at any time prior to the effective time of the merger, the parties to the merger agreement may modify or amend the merger agreement, by written agreement executed and delivered by duly authorized officers of the respective parties.

The conditions to each of the parties obligations to consummate the merger are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law.

Affiliate Agreements

Prior to the date of the stockholders meeting, eBay will deliver to PayPal a list of names and addresses of those persons who are, in the opinion of eBay, as of the time of the stockholders meeting, affiliates of PayPal within the meaning of Rule 145 under the Securities Act. PayPal will provide to eBay the information and documents as eBay may reasonably request, for purposes of preparing such list. PayPal will exercise its best efforts to deliver or cause to be delivered to eBay, prior to the date of the stockholders meeting, from each of the affiliates of PayPal identified, an affiliates letter, dated as of the closing date.

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Under the affiliates letter, eBay will be entitled to place customary legends on the certificates evidencing any eBay common stock to be received by these persons. Further, these persons have also acknowledged the resale restrictions imposed by Rule 145 under the Securities Act may apply to shares of eBay common stock to be received by them in the merger.

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by stockholders of PayPal, by mutual written consent of PayPal and eBay by action of their respective boards of directors.

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by stockholders of PayPal by action of either the board of directors of eBay or PayPal if:

the merger has not been consummated by December 31, 2002, except that if either party determines that additional time is necessary in order to forestall any action to restrain, enjoin or prohibit the merger by any federal, state, local or foreign court or governmental entity with jurisdiction over enforcement of any applicable antitrust laws, the termination date may be extended by such party to a date not beyond March 31, 2003, so long as the party seeking to terminate pursuant to the merger agreement has not breached in any material respect its obligations under the merger agreement in any manner that has proximately caused the occurrence of the failure of the merger to be consummated;

the approval of PayPal s stockholders required by the merger agreement has not been obtained at a meeting convened therefor or at any adjournment or postponement thereof; or

any order permanently restraining, enjoining or otherwise prohibiting consummation of the merger becomes final and non-appealable.

If a party elects to extend the termination date to March 31, 2003 as described above, then the other party may deliver a written update of its disclosure letter within three business days of such election to reflect new facts occurring after the date of the merger agreement. The update may be accompanied by a written request that the party electing to extend the termination date confirm that such new facts will not be deemed to render any of the non-extending party s representations and warranties untrue or incorrect as of such date or deemed to constitute a PayPal material adverse effect or an eBay material adverse effect, as the case may be, as of such date. If the party electing to extend the termination date does not provide such confirmation prior to the fifth business day after receiving such written update, then the termination date may not be extended.

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by PayPal stockholders, by action of the board of directors of PayPal if there has been a breach of any representation, warranty, covenant or agreement made by eBay or Vaquita Acquisition Corp. in the merger agreement, or any such representation and warranty becomes untrue after the date of the merger agreement, such that certain conditions to closing of PayPal would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by PayPal to eBay.

The merger agreement may be terminated at any time prior to the effective time of the merger, by action of the board of directors of eBay, if:

the board of directors of PayPal has withdrawn or adversely modified its approval or recommendation of the merger agreement; or

there has been a breach of any representation, warranty, covenant or agreement made by PayPal in the merger agreement, or any such representation and warranty becomes untrue after the date of the merger agreement, such that certain conditions to closing of eBay would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by eBay to PayPal.

Termination Fee and Expense Reimbursement

PayPal has agreed to pay to eBay a termination fee equal to $5,000,000 and to pay eBay s charges and expenses if the merger agreement is terminated by eBay after PayPal s board of directors has withdrawn or adversely modified its approval or recommendation of the merger agreement in the absence of an acquisition proposal. PayPal must pay the termination fee to eBay no later than two days after the date of the termination. In addition, PayPal must pay eBay s expenses and charges no later than two days after eBay notifies PayPal of its expenses and charges.

PayPal has agreed to pay eBay a termination fee equal to $45,000,000 and to pay eBay s charges and expenses if an acquisition proposal has been made to PayPal or any of its subsidiaries or any of its stockholders or any person has publicly announced an intention (whether or not conditional) to make any acquisition proposal with respect to PayPal or any of its subsidiaries and thereafter the merger agreement is terminated by either eBay or PayPal because

the merger has not been consummated by December 31, 2002 (or, if applicable, March 31, 2003),

the approval of PayPal s stockholders has not been obtained at a meeting,

PayPal s board of directors has withdrawn or adversely modified its approval or recommendation, or

there has been a breach of any representation, warranty, covenant or agreement made by PayPal in the merger agreement, or any such representation and warranty becomes untrue after the date of the merger agreement, such that certain conditions to closing of eBay would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by eBay to PayPal and

thereafter PayPal enters into any agreement to consummate a transaction or series of transactions which, had such agreement been proposed or negotiated during the term of the merger agreement, would have constituted an acquisition proposal, which is

publicly announced within 12 months after the termination of the merger agreement and

consummated within 18 months after the termination of the merger agreement,

whether or not such agreement related to an acquisition proposal which had been made or announced at the time of the termination of the merger agreement. PayPal must pay the termination fee contemporaneously with completion of the transactions contemplated by such agreement. PayPal must pay eBay s expenses or charges no later than two days after eBay notifies PayPal of its expenses and charges.

Indemnification and Insurance

eBay has agreed that from and after the effective time of the merger, it will indemnify and hold harmless each present and former director and officer of PayPal, when acting in such capacity, determined as of the effective time of the merger, against any costs or expenses, including reasonable attorneys fees, judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or prior to the effective time of the merger.

However, any person to whom expenses are advanced must provide an undertaking to repay such advance if it is ultimately determined that such person is not entitled to indemnification. Generally, eBay is required to provide indemnification to the fullest extent that PayPal would have been permitted under the Delaware General Corporation Law and for all claims arising from or relating to the merger.

eBay has agreed, for six years after the effective time of the merger, to maintain in effect PayPal s current officers and directors insurance, subject to certain limitations.

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Other Material Agreements Relating to the Merger

Stockholders Agreements

Contemporaneously with the execution and delivery of the merger agreement, eBay and certain PayPal stockholders entered into stockholders agreements. Approximately 27.7% of the outstanding shares of PayPal common stock are subject to the stockholders agreements. We refer to these shares as the subject PayPal shares .

The foregoing is a summary description of the stockholders agreements. The stockholders agreements are attached as Annex B and Annex C to this proxy statement/ prospectus and are hereby incorporated by reference into this proxy statement/ prospectus.

Agreement to Vote and Irrevocable Proxy

These PayPal stockholders have agreed to vote the subject PayPal shares at the stockholders meeting:

- in favor of the merger and the merger agreement and approval of the terms thereof;
- against approval of any acquisition proposal or any acquisition agreement or similar agreement related to an acquisition proposal;
- against any change in the persons who constitute the board of directors of PayPal that is not approved in advance by at least a majority of the persons who were directors of PayPal as of July 7, 2002; and
- against any other action or proposal involving PayPal or any of its subsidiaries that is intended, or could reasonably be expected, to prevent, impede, interfere with, delay, postpone or adversely affect the transactions contemplated by the merger agreement.

These PayPal stockholders also granted to eBay an irrevocable proxy and irrevocably appointed eBay such stockholders attorney and proxy to vote the subject PayPal shares with regard to any of the foregoing matters at the stockholders meeting.

Transfer Restrictions

In addition, these PayPal stockholders agreed that they would not, directly or indirectly, initiate, solicit, encourage or otherwise facilitate any inquiries or the making of any acquisition proposal.

These PayPal stockholders also agreed to certain restrictions on the transfer of their subject PayPal shares.

Under their stockholders agreement, subject to certain exceptions, Reid G. Hoffman, Max R. Levchin, Elon Reeve Musk, David O. Sacks, James E. Templeton and Peter A. Thiel may not, without the prior written consent of eBay, during the period commencing on July 7, 2002 and ending 30 days after the effective time of the merger, transfer any of such stockholder s subject PayPal shares or any shares of eBay common stock received in exchange therefor in the merger, except that each such stockholder may transfer:

- up to one-half of such stockholder s subject PayPal shares pursuant to, and in accordance with the requirements of, Rule 144 under the Securities Act from the later of the date of the meeting of stockholders of PayPal at which the stockholders of PayPal vote on the approval of the merger and the merger agreement and the terms thereof and November 13, 2002; and
- up to one-half of the shares of eBay common stock issued in exchange for the subject PayPal shares held by such stockholder at the effective time of the merger from the effective time through and including the 30th day following the effective time of the merger.

Under their stockholders agreement, subject to certain exceptions, Roelof F. Botha, Madison Dearborn Capital Partners III, L.P., Madison Dearborn Special Equity III, L.P., Nokia Ventures, LP,

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Sequoia Capital IX, Sequoia Capital Entrepreneurs Fund, Sequoia Capital IX Principals Fund and Thiel Capital International, LLC may not, without the prior written consent of eBay, during the period commencing on July 7, 2002 and ending 30 days after the effective time of the merger, transfer any of such stockholder s subject PayPal shares or any shares of eBay common stock received in exchange therefor in the merger, except that each such stockholder may transfer up to one-half of the shares of common stock issued in exchange for the subject PayPal shares held by such stockholder at the effective time of the merger from the effective time through and including the 30th day following the effective time of the merger. As of July 7, 2002, these stockholders owned an aggregate of approximately 6.9 million shares of PayPal common stock that are not subject to the provisions of their stockholders agreement, including the transfer restrictions set forth therein. The lock-up agreement entered into in connection with PayPal s initial public offering relating to these shares expired on August 14, 2002 and as a result, these shares currently may be sold subject to applicable securities laws. One or more of such stockholders has sold all or a portion of such shares and PayPal anticipates that one or more of such stockholders may sell or distribute all or a portion of any remaining shares prior to the effective time of the merger.

eBay Employment Agreements

In connection with the merger agreement, eBay and PayPal entered into employment agreements with Peter A. Thiel, Max R. Levchin, David O. Sacks, Roelof F. Botha, John Muller and Ryan Downs. Mr. Thiel s employment agreement has a term of six months commencing at the effective time of the merger and provides that he will serve as Chief Executive Officer and President of PayPal and Senior Vice President of eBay. Mr. Thiel will report to eBay s Chief Executive Officer and is expected to be an executive officer of eBay for purposes of the Exchange Act. Mr. Levchin s employment agreement has a term of six months commencing at the effective time of the merger and provides that he will serve as Chief Technology Officer of PayPal. Mr. Sacks employment agreement has a term of twelve months commencing at the effective time of the merger and provides that he will serve as Chief Operating Officer of PayPal. Mr. Botha s employment agreement has a term of twelve months and provides that he will serve as Chief Financial Officer of PayPal. Mr. Muller s employment agreement has a term of eighteen months and provides that he will serve as General Counsel and Secretary of PayPal. Mr. Downs employment agreement has a term of eighteen months and provides that he will serve as Senior Vice President of Operations of PayPal.

Each executive will receive an annual base salary equal to his annual base salary of July 7, 2002, subject to increases that may be made from time to time by eBay, and will be eligible to participate in various employee pension and welfare benefit plans of eBay.

In the event that any payments under the employment agreement, as a result of the merger, or otherwise result in the executive being subject to the golden parachute excise tax under Section 4999 of the Internal Revenue Code, eBay will make additional cash payments so that the executive will be in the same after-tax position as if no excise tax had been imposed, subject to certain limitations.

The employment agreements provide that the stock options and restricted stock that are unvested and owned by each executive on July 7, 2002 will vest on an accelerated schedule:

If the executive remains employed throughout the term, then the executive s stock options and restricted stock which are not vested at the end of the term will fully vest at the end of the term.

If the executive is terminated by eBay without cause prior to the end of the term or if the executive terminates the agreement with good reason prior to the end of the term, then the executive s stock options and restricted stock which are not vested will fully vest at the time of such termination.

If the executive dies or eBay determines that a disability of the executive has occurred prior to the end of the term, then the executive s stock options and restricted stock owned will fully vest on that date.

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If the executive is terminated for cause, then the executive will not receive accelerated vesting of any of his stock options or restricted stock.

Under the employment agreements, cause means the commission by the executive of a felony involving fraud or an act of dishonesty against eBay or PayPal which adversely affects eBay or PayPal in a material way, subject to various exceptions.

Under the employment agreements, good reason means:

- the assignment to the executive of duties that are materially inconsistent with the executive s title, position, authority, duties or responsibilities, as contemplated by the employment agreement, without the consent of the executive;
- the failure of eBay to comply with its obligations with respect to the executive s compensation and benefits, without the consent of the executive; or
- a requirement that the executive be based anywhere more than 35 miles from the executive s principal place of employment, as specified in the employment agreement, without the consent of the executive.

Each executive has agreed that between the date of the agreement and two and one-half years after the effective time of the merger, the executive may not own a 5% or greater interest or be involved in any business enterprise that is primarily engaged in the business of providing online person-to-person payment services.

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Information About PayPal

Business

Overview

PayPal enables any business or consumer with email to send and receive online payments securely, conveniently and cost-effectively. PayPal s network builds on the existing financial infrastructure of bank accounts and credit cards to create a global payment system. PayPal delivers a product well suited for small businesses, online merchants, individuals and others.

PayPal seeks to become the global standard for online payments. PayPal currently offers its account-based system to users in 38 countries including the United States. For the year ended December 31, 2001 and for the six months ended June 30, 2002, PayPal s payment volume sent to business accounts, which PayPal refers to as Gross Merchant Sales, or GMS, totaled $3.10 billion and $2.76 billion. GMS equaled 87.9% and 89.8% of PayPal s total payment volume of $3.52 billion and $3.08 billion for the same periods. PayPal s GMS consists mainly of payments to small businesses. Currently, the majority of these payments relate to sales of goods and services through online auctions. As of June 30, 2002, PayPal had 17.8 million accounts, including 3.7 million business accounts and 14.1 million personal accounts. During the six months ended June 30, 2002, 7.2 million of these accounts sent or received a payment that resulted in a fee. As of December 31, 2001, PayPal had 12.8 million total accounts, of which 7.1 million sent or received a payment that resulted in a fee during the year ended December 31, 2001.

To send a payment, a PayPal account holder enters the email address of the recipient and the payment amount, and selects a funding source credit card, bank account or PayPal balance. In addition, with PayPal s Web Accept feature, merchants can accept PayPal payments directly from their websites. When a consumer who has not yet registered with PayPal visits the website of a merchant that has integrated Web Accept, the consumer can open a PayPal account from the merchant s site in order to make a purchase.

Payment recipients may use their funds to make payments to others, leave the funds in their PayPal accounts and earn a money market rate of return, or withdraw the funds at any time by requesting a bank account transfer or a check delivered by mail or by using the PayPal ATM/debit card. When a PayPal sender makes an email payment to a recipient who does not yet have a PayPal account, the recipient follows a link in the payment notification email to register with PayPal and gain access to the funds.

PayPal has achieved its rapid growth through a combination of the push nature of email payments to non-registered recipients and the pull nature of Web Accept. During the six months ended June 30, 2002, PayPal s total number of accounts grew by 5.0 million, an average of 28,000 per day, at an average total marketing expense of $0.53 per new account, which includes an average promotional bonus cost of $0.09 per new account. Due to seasonal fluctuations and consistent with PayPal s experience in 2001, the average number of accounts added per day during the three months ended June 30, 2002, decreased as compared to the three months ended March 31, 2002.

During the six months ended June 30, 2002, PayPal processed an average of 306,000 payments per day totaling $17.0 million in daily volume. The average payment amount sent equaled $56.

Industry Overview

Growth of Online Commerce

Forrester Research projects consumer purchases on the Internet to grow from an estimated $51.5 billion in 2001 to an estimated $195.0 billion in 2006. The emergence of auction-based marketplaces, which provide small merchants and consumers access to the global market, contribute significantly to this growth. For example, eBay reported gross merchandise sales of $6.5 billion for the six months ended June 30, 2002, an increase of 54% over the comparable period in 2001. Forrester projects continued robust growth in total consumer auction sales from an estimated $8.4 billion in 2001 to $48.5 billion in 2006.

Legacy Payment Systems

Traditionally, consumers and businesses have effected payments by delivering cash, paper checks or money orders, by instituting wire transfers or by using credit cards. According to The Nilson Report, an estimated $5.5 trillion in consumer payments were made in the U.S. in 2001. Paper checks, the most common method of settling commercial transactions, comprised 41.1% of the total dollar value of commercial payments in 2001. Credit card transactions represented 24.5% of the total. Many small to mid-sized businesses wishing to conduct transactions online may find these traditional payment methods insecure, expensive or inconvenient.

Cash: Cash payments, while effective for face-to-face low-value transactions, do not function effectively for transactions in which the buyer and seller are in different locations.

Checks: Both the sender and the recipient of paper checks can find them costly and inconvenient in terms of printing, mailing, delivering and processing. In addition, checks settle slowly, as even after delivery and deposit checks still can take several days to clear and allow the recipient access to the funds.

Wire Transfer: Individuals sending money overseas and persons without bank accounts primarily use wire transferors and money transmission services. These services often charge high fees, particularly for low- and mid-value payments, and involve inefficient methods of payment notification and receipt.

Credit Cards: Credit cards accounted for approximately 98.5% of payment volume for online transactions in 2000 according to ActivMedia. However, many small and mid-sized businesses may find drawbacks to accepting credit cards for online transactions. In order to obtain a merchant agreement and accept credit cards online, many merchants need to provide a personal guaranty, acquire specialized hardware, prepare a loan application, establish secure Internet connections and encrypt all customer credit card data. In addition, the up-front and monthly fixed costs and the relatively high variable processing costs at low volumes may make credit cards prohibitively expensive for smaller merchants. Fraud poses a major problem for online merchants, which bear responsibility for fraudulent credit card payments. According to Global Industry Analysts, online fraud accounted for approximately 5% of total online transactions in 1999.

PayPal s History

PayPal set out to develop a payment system combining the pervasiveness of email with the existing financial infrastructure the Automated Clearing House, or ACH, system, the credit card networks and the ATM/debit card networks. PayPal launched its product in October 1999, offering free email-driven, person-to-person payments. In order to encourage growth, PayPal designed its system to allow senders to pay people who did not yet have PayPal accounts. Every time a PayPal user sent money to someone who had not joined the PayPal network, the recipient received an email with a link to open a PayPal account and claim his money. In this way, the user base grew as a direct function of people using the PayPal system. PayPal augmented this user-driven growth with various promotional bonuses.

Recognizing that much of its payment volume involved businesses, in June 2000 PayPal began charging fees to its higher volume individual and commercial recipients by launching business accounts. Unlike personal accounts, business accounts may receive unlimited credit card funded payments and also take advantage of e-commerce-enabling features such as Web Accept, which allows merchants to receive payments directly from their websites. A number of previous attempts to create new payment mechanisms failed largely because of the chicken and egg problem consumers did not adopt the mechanism because merchants did not accept it, and merchants would not accept it because no consumers used it. PayPal solved this problem by making it virtually costless for merchants to sign up for accounts. A business only needed email and an Internet connection. At the same time, PayPal s growing customer base encourages merchants to register simply by sending them email payments.

For the six months ended June 30, 2002, PayPal processed an average of 306,000 payments per day, totaling $17.0 million in daily volume. PayPal has refined its sign-up and referral bonus requirements to encourage its customers to utilize the full range of its product, including the ability to link a bank account

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and to earn a money market rate of return on their respective PayPal balances. As PayPal has grown its customer base and added features to its product, it has increased the prices charged to business accounts with no noticeable adverse effect on GMS.

PayPal believes that its market exhibits network characteristics, meaning that as the number of participants within the PayPal network grows, the value of joining the network grows as well.

The PayPal Product

PayPal enables any business or consumer with email to send and receive online payments securely, conveniently and cost-effectively. Its email-driven system builds on the legacy financial infrastructure of bank accounts and credit cards to create an online payment network available to users in 38 countries.

How PayPal Works

Joining the Network. To send or receive a payment, a user first must open a PayPal account. A new recipient opens an account after receiving notification of a payment, and each new sender opens an account in the process of making a payment, either at the PayPal website or at the website of a merchant that has integrated PayPal s Web Accept feature. Allowing new users to join the network at the time of making or receiving payments encourages PayPal s natural, user-driven growth. PayPal s fast and simple account sign-up process asks each new user to register with PayPal his name, street address and email address, which serves as the unique account identifier.

Making Payments. Senders make payments at the PayPal website or at the sites of merchants that have integrated PayPal s Web Accept feature. To make a payment at PayPal s website, a sender logs in to his account and enters the recipient s email address and the dollar amount of the payment. To make a payment through Web Accept, a sender selects an item for purchase, confirms the payment information and enters his email address and password to authorize the payment. In both scenarios, PayPal debits the money from the sender s PayPal balance, credit card or bank account and instantly credits it to the recipient s PayPal balance. In turn, the recipient can make payments to others or withdraw his funds at any time. PayPal earns revenues when a business account receives a payment.

PayPal uses the terms balance and PayPal balance to refer to funds that PayPal customers choose either to invest in the PayPal Money Market Fund (offered only to U.S. customers) or to authorize PayPal to place in pooled bank accounts as agent for its customers. These funds belong to the customers and hence are not shown as an asset on PayPal s balance sheet. Such funds are available to the customer for immediate spending or withdrawal through PayPal.

Funding Payments. Senders fund payments in three ways:

- from the sender s existing PayPal balance;
- from the sender s bank account, using the Automated Clearing House, or ACH, network; or
- from the sender s credit card.

PayPal incurs no funding cost on payments made from existing PayPal balances. PayPal incurs a cost of $0.01 for each bank account ACH transfer. By contrast, on credit card-funded payments, on average, PayPal incurs processing and interchange fees of 1.9% of the payment amount plus $0.15 per transaction. As a result, PayPal encourages its users to make bank account-funded payments. To those users who choose to maintain PayPal balances, PayPal offers a money market rate of return on PayPal account balances placed in its affiliated Money Market Fund, or the Fund. The Fund, which is managed by Barclays Global Fund Advisors, bears a current compound annual yield of 1.92% as of June 30, 2002. For the six months ended June 30, 2002, customers funded 22.7% of payment volume through their existing PayPal balances, 30.4% via bank account transfers and 46.9% by credit cards. While PayPal encourages senders to make payments from bank account transfers or existing PayPal balances, PayPal also welcomes and encourages senders to register and use credit cards. Many senders prefer to fund transactions using credit cards, and their participation in PayPal s user base increases the value of its payment network. In

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early 2002, PayPal began to permit users in the Netherlands and Germany to fund their PayPal accounts directly from their bank accounts.

*Verification of PayPal s Account Holders*In order for senders to fund payments from their bank accounts, they first must become verified PayPal users through its Random Deposit technique for which PayPal has applied for a patent: PayPal makes two deposits ranging from 1 to 99 cents to the user s bank account. To verify ownership of the account, the user then enters the two amounts as a four-digit code at the PayPal website. In addition to allowing funding via bank accounts, verification also removes some spending limits on users accounts and gives them reputational advantages when transacting with other members of the PayPal community.

	Account Metrics as of									
	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001	Mar. 31, 2002	June 30, 2002
Number of verified U.S. bank accounts		0.04	0.8	1.4	2.0	2.5	3.0	3.4	4.0	4.6
Total number of U.S. PayPal accounts	0.8	2.2	3.7	5.4	6.9	8.3	9.9	11.8	14.0	16.1
Percentage of U.S. accounts verified	%	1.8%	21.0%	25.7%	28.6%	30.2%	30.6%	28.4%	28.7%	28.7%

	Funding Metrics for the Three Months Ended									
	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001	Mar. 31, 2002	June 30, 2002
Percentage of payment volume funded by:										
Credit cards	76.2%	81.0%	74.1%	56.9%	48.8%	50.5%	53.2%	52.3%	47.7%	46.2%
Bank accounts	%	%	5.2%	20.3%	27.4%	27.3%	25.7%	25.4%	29.5%	31.2%
PayPal account balances	23.8%	19.0%	20.6%	22.8%	23.9%	22.2%	21.0%	22.3%	22.8%	22.6%

Withdrawing Money. Each U.S.-based account holder may withdraw money from his PayPal account via an ACH transfer to his bank account or by a mailed check from PayPal. ACH withdrawals may take three to five business days to arrive in the account holder s bank account, depending on the bank. Mailed checks may take one to two weeks to arrive and PayPal charges $1.50 per check. Qualifying PayPal users also can receive a PayPal ATM/debit card, which provides instant liquidity to their respective PayPal account balances. ATM/debit card holders can withdraw cash, for a $1.00 fee per transaction, from any ATM connected to the Cirrus or Maestro networks and can make purchases at any merchant accepting MasterCard. For the six months ended June 30, 2002, PayPal earned revenues net of cash back payments of approximately 0.8% on PayPal ATM/debit card transactions.

In September 2001, PayPal launched its new virtual debit card feature called Shop Anywhere. Shop Anywhere allows PayPal users to make purchases up to $150 per day using their PayPal balances at any online merchant accepting MasterCard.

Timing of Payments and Withdrawals

The time it takes for a sender to complete a transaction using PayPal and for a recipient to have use of the transferred funds depends on the sender s funding source for the payment and the recipient s choice regarding use of the funds he or she receives. The sender can fund a payment from one of three sources: an existing PayPal balance, a credit card or, for U.S. customers, a bank account. If the sender funds the payment in full using a pre-existing PayPal balance, PayPal instantly debits the amount specified by the sender from the sender s balance and simultaneously credits that amount, less any applicable fees, to the recipient s PayPal balance. If the sender instead funds the payment in part or in full using a credit card, PayPal credits the amount of the payment, less any fees, to the recipient s account as soon as PayPal receives information from the applicable credit card network that the sender s payment is authorized, which usually takes a few seconds. Similarly, if the sender has registered both a primary bank account and an alternate funding source with PayPal and qualifies for PayPal s Instant Transfer feature, PayPal will credit the recipient s account instantly. PayPal will concurrently initiate a debit to the sender s primary

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bank account through the ACH network. The only type of payment in which PayPal does not credit funds instantly to the recipient occurs if the sender chooses to use bank account funding but does not qualify for, or elects not to use, Instant Transfer. In these eCheck payments, PayPal will initiate a debit to the sender s bank account through the ACH network, and will notify the recipient immediately that the sender has initiated payment, but will credit funds to the recipient s account only after the debit has been completed, which usually takes three to four business days.

Once the funds have been credited to the recipient s account, the recipient can leave the funds in the PayPal system or can at any time initiate a withdrawal. The customer can withdraw funds either by ACH transfer to his or her bank account, if the customer is in the U.S. or one of 16 other countries, or by check for U.S. customers. Recipients who are U.S. customers can also immediately spend up to $150 per day from their PayPal balance at online sellers that accept MasterCard, using PayPal s Shop Anywhere feature. U.S. recipients who have a business account may also be eligible for the PayPal ATM/debit card, which can be used to spend PayPal balances at online sellers and physical retail locations that accept MasterCard and withdraw cash at ATMs.

If the recipient initiates a withdrawal by ACH transfer, he or she will typically receive the funds in his or her bank account within four business days, or five business days in the 16 countries outside the U.S. where PayPal offers withdrawals to local bank accounts. If the recipient initiates a withdrawal by check, PayPal will send a request on the following business day to its processing bank to issue and send the check through the U.S. mail, but the time needed for the recipient to receive the check will depend on the speed of mail delivery and the recipient s geographic location. The full process from initiation of a check withdrawal request to receipt of the check by the customer can take up to two weeks. Even after the customer has received the check, he or she will need either to cash the check or deposit it in his or her bank. If he or she deposits the check in the bank, depending on the customer s location, the bank may take up to five additional days to credit the customer s account with the funds.

Users may also add funds to their PayPal accounts without making a payment. This is not possible by credit card, but only by ACH transfer from a bank account, which generally takes three to four business days to complete.

The following tables summarize the timing of payments and withdrawals.

Making Payments and Funding:

	Source			
		Bank Account		
	Credit Card	Instant Transfer	eCheck/ACH	Existing PayPal Balance
Domestic payment	Instant	Instant	3-4 business days	Instant
International payment	Instant	n/a	n/a	Instant
Add funds	n/a	n/a	3-4 business days	n/a

Withdrawals:

	Method		
	Bank Account	Check	ATM/Debit Card
Domestic withdrawal	3-4 business days	Up to 2 weeks	Instant
International withdrawal	5 business days	n/a	Instant

Account Types

Business Accounts. PayPal s customers choose either PayPal business accounts or PayPal personal accounts. Gross Merchant Sales, or GMS, equals the total dollar volume of payments sent to business accounts. Business accounts pay PayPal transaction fees on all payments they receive. Since July 14, 2001, PayPal s per transaction rate varied according to the following schedule: 2.2% of the GMS payment amount plus $0.30 per transaction for merchants in good standing receiving an average of at least $1,000

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per month in payments; 2.9% of the GMS payment amount plus $0.30 per transaction for merchants receiving an average of less than $1,000 per month in payments; and from 3.4% to 3.9% of the GMS payment amount plus $0.30 per transaction for higher risk accounts.

	For the Three Months Ended									
	Mar. 31, 2000	**June 30, 2000**	**Sept. 30, 2000**	**Dec. 31, 2000**	**Mar. 31, 2001**	**June 30, 2001**	**Sept. 30, 2001**	**Dec. 31, 2001**	**Mar. 31, 2002**	**June 30, 2002**
Gross Merchant Sales (GMS)	$	$ 1.9	$ 55.6	$335.7	$546.8	$663.0	$815.0	$1,070.8	$1,313.8	$1,449.0
Total payment volume	$46.3	$248.8	$422.8	$543.6	$642.7	$				