

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**

eBay Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

7389
*(Primary Standard Industrial
Classification Code Number)*

77-0430924
*(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
Sullivan & Cromwell
1870 Embarcadero Road
Palo Alto, California 94303
(650) 461-5600**

**John D. Muller
PayPal, Inc.
303 Bryant Street
Mountain View, California 94041
(650) 864-8000**

**Richard W. Porter, P.C.
Kirkland & Ellis
200 East Randolph Drive
Chicago, Illinois 60601
(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.

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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.

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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>i.e.</i> , 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

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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

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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.

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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.