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Meg Whitman at eBay Inc. (A)

In May 1999, Meg Whitman, president and CEO of eBay Inc. (eBay)—the largest person-to-person trading site on the Internet—reviewed the final details of the proposed acquisition of family-owned Kruse International (Kruse), an Indiana-based auctioneer of collector automobiles. Kruse participated in approximately 40 car auctions each year and had developed extensive relationships with collectors and dealers throughout the world. Whitman favored the acquisition because it would strengthen eBay's position in the auction market for high-end goods. Since eBay received a percentage of the final sale price on any item sold on its site, higher priced items resulted in higher revenues. If eBay decided to go through with the deal, Whitman felt Wall Street would react positively. eBay had been a Wall Street darling since it went public in September 1998; its valuation had increased from \$700 million at the time of its IPO to \$24 billion by mid-May 1999—a 3400 percent increase in less than a year. While Whitman was pleased with the stock's performance, Wall Street's high valuation of eBay also put significant pressure on the company to grow. To date, eBay had lived up to investors' high growth expectations; eBay's net revenue grew from \$604,000 in the first quarter (Q1) of 1997 to \$34 million in Q1 1999, and gross merchandise sales grew from \$9 million in Q1 1997 to \$541 million in Q1 1999 (see Exhibits 1 and 2). Furthermore, eBay's vision—to be the world's largest online personal trading community—suggested that the rapid pace of growth would continue.

eBay attributed much of its success to a strong sense of community among its users. As Whitman described it, eBay was a site “of the people, by the people, for the people.” For many “eBayers”—as eBay users referred to themselves—eBay represented far more than a place to buy and sell goods. It was a place where they could meet people with similar interests, discuss topics they cared about, and share information using the company's chat rooms, bulletin boards, and e-mail services. eBay's community had a distinct culture, based on trust, respect, autonomy, empowerment, and equality. Industry analysts believed that eBay's somewhat quirky but highly community-oriented culture had led to its surge in popularity; by Q1 1999 eBay had 3.8 million registered users—up from 88,000 in Q1 1997 (see Exhibit 3). One analyst noted, “The three most important keys of [eBay's] success—community, community, community.”¹ eBay's internal company culture was designed to mirror its external community culture. Employees were expected to be open and honest, to treat each

¹ Andrikopolous, Shaun. “eBay Inc.; Enabling an Army of Entrepreneurs—The Dominant On-Line Trading Community.” BTALex.Brown Research. October 27, 1998.

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other with respect, and to speak up if they believed they were not being treated in this manner. Management described eBay as being a non-hierarchical, democratic organization, which encouraged ideas and feedback from all employees.

Yet eBay's user-empowered, democratic community culture had come under some strain over the past six months, as the company faced explosive growth. As Whitman explained, "Think of what happens when a small community turns into a big city."² Whitman and the senior management team instituted a number of corporate policies and took a number of proactive measures to resolve the issues that had surfaced and to position the company for further growth. While investors applauded Whitman's actions, some eBay users bristled at the perceived change in eBay's historically "bottoms-up," hands-off approach. As Whitman reviewed all the organizational changes, strategic acquisitions, and alliances already under way, she wondered if the Kruse acquisition would be "too much, too fast."

eBay

Founded in 1995 by Pierre Omidyar, eBay began as a pet project. Omidyar, a self-described "anticommercial" former software developer, was frustrated at not having the same access to shares of stock from initial public offerings as institutional brokers had. Omidyar designed eBay to be an efficient market where all users had equal access to information and treated each other with honesty and respect. He launched his small, person-to-person, online trading post called Auction Web in September 1995. While the Internet was still relatively unknown to the general public (Netscape didn't go public until 1995), traffic to Omidyar's site grew steadily. Collectors of all types began to trade a wide variety of goods on the Auction Web site. While posting a listing had initially been free, Omidyar began to charge \$.25 per listing as trading increased to offset the cost of maintaining the site.

Trading continued to grow so rapidly that Omidyar quit his job at General Magic, in early 1996, to focus exclusively on what was turning into a real business. Soon thereafter, Jeff Skoll, a 1995 graduate of Stanford's Graduate School of Business and friend of Omidyar, also quit his job as channel marketing manager for Knight-Ridder Information Inc. to join Omidyar and help build the business. Realizing the enormous potential of his idea, Omidyar sought venture capital backing in mid-1997—more for the sponsorship benefits and management contacts it could bring than for the cash itself. Benchmark Capital (Benchmark), a Menlo Park-based venture capital firm, invested a total of \$5 million in eBay for a 22% stake in the company.

By 1997, eBay had become the largest and most popular person-to-person trading community on the Internet.³ (See Exhibit 4 for background on the Internet.) eBay offered consumers an efficient and entertaining auction format for buying and selling personal items, such as antiques, coins, collectibles, computers, memorabilia, stamps, and toys. While a wide variety of items were traded on eBay, Beanie Babies—the pint-sized stuffed animal sensations—formed one of the largest categories representing 5%-6% of the total items on the site. The average closing price on an eBay auction was around \$47. The eBay site enabled sellers to list items for sale and buyers to bid on items of interest using eBay's fully automated, topically arranged, easy-to-use online service. This type of person-to-person trading had historically been conducted through offline trading forums, such as classified ads, collectibles shows, garage sales, flea markets, and auctions. In 1998, the collectibles market alone was estimated to be around \$103 billion; the U.S. personal property auction market (which somewhat

² "How eBay Will Battle Sham Bids, Mislabeling." *The Wall Street Journal*. January 15, 1999. P. B1.

³ As measured by number of items listed, number of unique users, and minutes of usage per month.

overlapped with the collectibles market) was estimated to be \$80 billion; and the U.S. classified ad market was estimated to be \$17 billion. Yet, there were inherent inefficiencies in these traditional forums, including their regional nature, limited variety, and inefficient pricing mechanisms. eBay offered consumers a solution to these problems by creating an efficient, 24-hour a day, global trading place.

eBay's business model was purely transaction based—there were no ads on the site, and hence no advertising revenue. Sellers paid eBay a nominal fee, ranging from \$.25 to \$2.00, for placing an item up for sale. In addition, the seller had the option of highlighting the item for additional fees, ranging from \$2.00 to \$49.95. At the end of the auction, if a bid exceeded the seller's minimum price, eBay automatically notified the buyer and seller via e-mail and charged the seller a transaction fee that ranged from 1.25% to 5% of the final sale price. The buyer and seller worked out the logistics of the transaction (e.g., shipping, payment) between themselves. eBay never took possession of the item being sold, or the payment for the item—sparing the company inventory, transportation, and other overhead costs. After the sale, each user was encouraged to submit feedback on his/her trading partner through eBay's "Feedback Forum." (See Exhibit 5 for an example from eBay's Feedback Forum.) As a result, the Feedback Forum created a self-regulating mechanism that encouraged good behavior. It was just one way that eBay fostered a strong sense of community on its site.

Meg Whitman

By the fall of 1997, Omidyar believed it was time to bring in a more experienced CEO. From the beginning, Omidyar assumed that in order for eBay to achieve its potential, it would need a CEO with strong brand-building experience. In fact, a primary reason that Omidyar had brought on a venture capital firm was to assist in recruiting top-tier management to eBay. Omidyar and Bob Kagle—the general partner from Benchmark who led the eBay investment—agreed that the top two criteria for eBay's future CEO were marketing expertise and cultural fit with the organization. Whitman met both criteria.

The youngest of three children, Whitman was raised on Long Island. She graduated from Princeton University in 1977 with a BA in Economics and immediately went on to Harvard Business School where she received her MBA in 1979. With an eye toward a career in marketing, Whitman's first full-time job was in brand management with Procter & Gamble where she worked from 1979 to 1981. Following her stint in Cincinnati, Whitman moved to San Francisco when her husband was offered a neurosurgery residency at the University of California-San Francisco. Whitman joined Bain & Co. in San Francisco where she worked for eight years and was elected a partner. In 1989 she was offered "one of those opportunities too good to turn down"—vice president of strategic planning for Walt Disney Co. Within 18 months, Whitman was promoted to senior vice president of marketing for the Disney Consumer Products Division.

In 1991, Whitman's husband accepted a position as Director of the brain tumor program at Massachusetts General Hospital, which entailed a move to Boston. Whitman joined Stride Rite Corporation, based in Lexington, Massachusetts, where she was initially charged with the task of turning around the flagging Keds division. From there she became president of the Stride Rite Division where she was responsible for the launch of the popular Munchkin baby shoe line. In 1995, Whitman accepted an offer to be the president and CEO of Florists Transworld Delivery (FTD) based in Michigan and Illinois. Eventually realizing she could not solve the problems at FTD, Whitman moved back to Boston in 1997 and re-joined her family who had not made the move to the Midwest. That same year, she accepted an offer to be the general manager of Hasbro Inc.'s (Hasbro) Preschool Division, where she presided over a marketing overhaul and layoffs to revive the division.

Whitman's Decision to Join eBay

By early 1998, Whitman had successfully returned Hasbro's Preschool Division to profitability and was enjoying being back in Boston with her family when David Beirne—a partner at Benchmark—called her about the president and CEO position at eBay. Whitman let Beirne know she had little desire to uproot her family and move 3,000 miles across the country to join a start-up. While Beirne understood Whitman's reservations, he was persistent and called her back a few weeks later to convince her to at least come out to California to visit eBay. Whitman recalled the visit:

I arrived in California and spent the entire day with Pierre, Bob, and Jeff. By the end of the day I saw that this could be a huge opportunity. A few things struck me right away. First, I saw that Pierre had created an entirely new market. Whereas so many of the Internet companies in existence had borrowed from something that existed offline and translated it into an online version, this was actually the creation of something that *couldn't be done* offline. I thought that was highly compelling. The second thing that struck me was the emotional connection between eBay users and the site. In classical marketing you ask the questions, what are the features and benefits of a product, and what's its emotional connection with consumers? While there were examples of successful products that had either a strong set of features or a strong emotional connection with consumers, really *great* brands had *both*. It was clear to me that eBay had the makings of a really great brand. Finally, I really liked Pierre, Jeff, and Bob. I liked the values they were trying to embed in the company and I thought their intuition was great.

Whitman soon learned that the community was an integral component of the company's foundation and business model. Omidyar explained:

The primary element of our culture is a respect for our community. It goes far beyond, "the customer is always right" because eBay wouldn't *exist* if it weren't for our community. In any other consumer business, the company controls at least one side of the equation. If you are selling goods, you control the way those goods are manufactured, the way they look, the way they are merchandised, the way sales people interact with customers, and the way the store looks. The brand experience is under the control of the company. For example, if you have a bad sales-person, you can either re-train or fire that person. At eBay, our customer experience is based on how our customers deal with our other customers. They rarely deal directly with the company. So how do you control the customer experience? We can't control how one person treats another. We can't say "you're fired" or "go back to training." It doesn't work that way. The only thing we can do is to influence customer behavior by encouraging them to adopt certain values. And those values are to assume that people are basically good, to give people the benefit of the doubt, and to treat people with respect—the way you would want to be treated yourself. These sound like basic golden rules, but our business depends on people conducting transactions with each other, and people won't conduct transactions with each other unless they have a trusting relationship first. That trusting relationship will only occur if they treat each other well. So there is a direct correlation between how our customers treat each other and the performance of our business.

While Kagle and Omidyar met with several other candidates, they quickly settled on Whitman as their top choice. Kagle explained:

I remember the most important question she asked during the recruiting process—a question that demonstrated to me that she was exactly the right person—was "Pierre's not going anywhere, is he?" I can tell you from my perspective that it's relatively rare that you

find a new CEO mature enough to be more concerned about keeping the good people than making their mark and taking control. Her comment displayed an unusual perceptiveness into the fact that what was going on at eBay was pretty special and that Pierre had been the architect of it.

In March 1998, Whitman signed on as president and CEO of eBay. Whitman reflected on her family's decision to move:

It was a joint decision. I think we all thought this was an emerging sector of the economy, a fun place to be, a revolution on the scale of the industrial revolution. As fortune would have it, Stanford was searching for a Director of their brain tumor program. That never happens, ever. You are always sort of sabotaging each other's careers as you move across the country. So, it just seemed like the right thing.

Whitman Arrives at eBay

Learning About eBay Whitman's past experience had taught her the importance of being respectful of culture and past achievements when entering a new company:

When I came to Stride Rite, I came in somewhat heavy-handed. I had to dig myself out of that hole because organizations don't appreciate it when you come in and just start telling them how to do things. I never would have done it as a consultant, but once you're a senior manager, the temptation is to do that kind of thing. So, I came to eBay with the mindset: What are these guys doing right? How do I build on what they are doing right? And how do I ease the organization into new ways of doing things in a really positive way as opposed to a negative way? It's all about body language, how you ask the questions, how you make them feel. Because no one likes to be second-guessed.

During Whitman's first week on the job, in addition to several meetings with Omidyar, she met individually with all of the senior executives to understand their responsibilities and priorities and listen to their thoughts on where the business was going. As Whitman scheduled appointments, she quickly developed an appreciation for how different the eBay culture was compared to her previous jobs. Whitman recalled:

Here I am trying to set up these meetings and no one had a calendar. This was a culture where you didn't need appointments because there were only 35 people at the company. I hadn't worked in a place where you didn't actually have a calendar in 20 years. So I laid out a calendar on my desk and asked people to sign up for appointments. I got a lot of push-back; people just looked at me and said, "Calendars? Sign-ups? We hate that." What ended up happening was that the people who had previously worked in big companies signed up for multiple meetings, and the people who had worked primarily in start-ups didn't sign up at all.

The meetings helped Whitman realize just how special the alchemy was between eBay's internal and external communities. eBay's internal culture mirrored many of the characteristics of its external community culture in tangible ways: they were empowered to develop recommendations, and the company employed a nonhierarchical, team-based approach to problem solving. Omidyar explained why this alignment was so important:

Internally, we *have* to share the same values as our community because we indirectly influence the community in everything we do. Everything we put on the Web site, every press release, every utterance to the press, every corporate action, every deal, every partnership that happens in any part of our organization eventually trickles down to the community. We rely

on all of our executives and then their managers to continue to communicate the culture. The message should trickle down to the very last employee, so that everyone really understands what we're about and what our values are. We also encourage our employees to call us on it if we're doing something that is not quite right. We've empowered everyone to be a guardian of the culture—*everyone*.

Through the course of her interviews, Whitman became even more aware of just how much needed to be done to position eBay for growth. Whitman reflected:

What I realized was that this was a great company, but only one step beyond a start-up. There were only 35 employees, and the company was almost entirely engineering-driven. The company had done virtually no marketing and an organizational structure was just emerging. It was clear that a lot needed to be thought through. What was the strategy of the company? Who was the market we were serving? What was the brand positioning?

Setting Priorities

By the end of the second week, Whitman had developed a clear set of short-term priorities: to develop a strategy for the level of investment the company should make in system capacity, to define and develop eBay's marketing strategy, to streamline and strengthen the organization, and to prepare the company for its IPO. (See **Exhibit 6** for a timeline of key activities.) She knew there would also be a host of other issues and opportunities that would surface over the next year that would require attention. In order to prepare her management team to be able to make decisions in "Internet time," Whitman mandated frequent and lengthy team meetings right from the start. Whitman believed that familiarity bred comfort and trust, which in turn contributed to a more effective team. As a result, Whitman held long (two- to four-hour) weekly management team meetings, which ran counter to the intensely time-constrained Internet mentality. However, Whitman believed it was time well spent. She explained:

I figured out early on that if we were going to work together as a team we needed to throw the ball around a lot before we could walk out on the court. So we spent a lot of time together, which was at odds with the pressure to get back to work, check voice mail, and check e-mail. But, I've found that throwing the ball around has been very helpful, because we're now able to have pretty short and focused discussions, figure out what the points of view are, and make a decision quickly.

While transitions from one CEO to another can often be stressful for an organization, the transition from Omidyar to Whitman was almost seamless. In part, this was due to Omidyar's confidence in Whitman's understanding of the importance of the community and values on which eBay had been founded. It was also due to Omidyar's careful communication to the organization regarding the transition. Omidyar reflected on this period:

I was concerned that some people in the organization might think that bringing on a new CEO signified that the company was having problems, so I was very careful to communicate the right message to folks here. I made a presentation to the entire staff that explained how well the company was doing and that the change in leadership was a reflection of the strong growth potential going forward. I made it clear that we were trying to build a really large company and that we needed people with experience to help us do that. I introduced Meg as someone in whom I had the utmost confidence and who really understood—and naturally shared—the values of our community. I also made a point of delegating responsibility to her immediately. After Meg joined, when people would come into my office looking for my

decision on an issue, I would tell them, “You need to talk to Meg about that.” Pretty quickly people got used to it.

Whitman’s respect for Omidyar and recognition of the importance of establishing a close working relationship with him also contributed to the smooth transition between founder and CEO:

My going-in hypothesis was that Pierre was really smart. He was intuitive, and I had to figure out how to partner with him because he understood the community probably better than I ever would. I wanted him to be involved in every decision and attend every meeting. As far as I was concerned, we were going to be twins for the foreseeable future.

Developing an Investment Strategy for System Capacity

Two weeks after Whitman started at eBay, the site went down for over eight hours—angering hundreds of thousands of eBay users who had auctions in process. As Whitman scrambled to identify the reason for the outage, she realized that she needed to better understand the company’s technical underpinnings. As Whitman recalled, “It was a wake-up call for me.” Whitman met with Mike Wilson, eBay’s Senior Vice President of Product Development and Site Operations, to discuss eBay’s system capacity and back-up capabilities. At first, they found it difficult to communicate with each other:

I had to get Mike to explain the technology in a way that we all could understand. I kept asking how much capacity does the system have? Then I realized I was not asking the question in a way he could understand. So, I used an analogy of a shoe factory. He thought it was a little weird, but it helped us develop a language that we could both speak and understand. In scoping out a project, we eventually began to speak about a unit of production as train seats. For example, it used to be that the train left once a week with six seats, now the train leaves three times a week with sixteen seats. These analogies allowed someone like the marketing manager to discuss projects in terms of their technology needs. The manager might say, “This will take roughly sixteen seats.” And we can come back and say, “There is no way we can get that, so let’s rework so it takes only eight seats.”

From her discussions with Wilson, Whitman learned that unlike a manufacturing company, eBay’s business was not capital intensive; in fact, the company estimated that it would have only \$8 million in net property, plant, and equipment (PPE) on the balance sheet by the end of 1998. Whitman quickly realized that the cost of having too little system capacity was very high compared to the cost of having too much capacity. As a result, she made the strategic decision to significantly increase the company’s ongoing investment in system capacity. Her goal was to have ten times the capacity needed at any point in time.

eBay’s stepped-up investment in system capacity was critical since the number of auctions listed on eBay grew from 4.2 million in the first quarter of 1998 to 23.0 million in the first quarter of 1999. However, even with its increased spending on technology, eBay continued to face periodic system outages throughout the year. Unlike many Web sites that simply posted content, eBay’s site had to process thousands of live bids simultaneously, which was far more taxing on the system, thereby increasing the risk of outages. To illustrate the demands on eBay’s system, a “typical day” for the site as of April 1999 entailed over 50 million page views, over seven million searches, over one million bids, and \$6 million in merchandise sales. Even though eBay’s technical challenges were great, the company did not have a Chief Information Officer (CIO).

Developing eBay's Marketing Strategy

As part of the effort to define and develop a marketing strategy for eBay, Whitman announced there would be a marketing offsite in two weeks time. In preparation for the offsite meeting, Whitman and Skoll conducted focus groups in San Francisco and Boston. Whitman recalled her excitement:

We had people from all walks of life: a Harvard law student, a truck driver, stay-at-home moms, people of all ages. I remember thinking, "Oh my God, this is really broad. This is going to be huge." I called Pierre and said, "Pierre, I've never seen anything like this. I have never seen such attachment to a company or a product in twenty years of marketing."

Whitman learned from the focus groups how different features of the site fostered a strong sense of community. eBay offered its users category-specific chat rooms, bulletin boards, a monthly newsletter, e-mail, a "giving board" for charitable donations to user-identified causes, and the opportunity to create their own personal home pages free of charge through eBay's *About Me* service. While users enjoyed the opportunity to develop relationships on eBay, the company believed that fostering a strong community affiliation would also encourage greater consumer loyalty and repeat usage. As a testament to the depth of the community connection among eBay's users, numerous close-knit sub-communities had developed on eBay around specific interest areas. In addition, the community spirit and personal relationships transcended the online experience; there were several reports of eBay users vacationing together, working together, and helping each other offline. Mary Meeker, an analyst with Morgan Stanley Dean Witter, summed up eBay's community: "eBay's passionate customer base (of the 'this changed my life' camp) reminds us of the cult-like following during the early and great days of Apple."⁴

Once Whitman experienced the eBay user community first-hand, she and Steve Westly, Vice President of Marketing and Business Development, were ready to lead the team in a market analysis at the offsite. The first thing they did at the offsite was to identify and size the various user segments on eBay—an exercise Whitman had found invaluable at P&G and Bain. The team found that eBay had a core group of heavy users; in fact, 20% of the users represented 80% of the volume on the site. Twenty-five percent of that 20% had quit their full-time jobs to dedicate more time to trading on eBay. These people were known as "Bay traders"—a take-off on the term "day traders." There were also reports of stay-at-home moms and retirees who had achieved significant financial independence and had gained enormous self-esteem by trading on eBay. There were even stories of people, like Judy Williams of Texas, who had worked their way off of welfare by trading on eBay. After working through the data, the team made the decision to focus the company's marketing efforts on its heavy users, who tended to be serious collectors. That decision implied that eBay would not enter into major portal advertising deals in the short term, as many other Web sites had. Instead Whitman decided that in the short term, eBay should pursue grassroots marketing initiatives and print advertising in vertical publications (e.g., *Mary Beth's Beanie World*, *Doll Collector*). As a reflection of that strategy, eBay appeared at over 90 collector trade shows and ran 14 different ads in 90 different vertical publications during 1998.

The concentration of heavy users also led to the introduction of eBay's PowerSellers Program (PowerSellers), which gave special benefits and privileges to heavy users. There were three levels within the PowerSellers program: bronze (for users who sold a minimum of \$2,000 per month), silver (for users who sold a minimum of \$10,000 per month), and gold (for users who sold a minimum of \$25,000 per month). To be a member of PowerSellers, users had to, among other things, maintain a

⁴ Meeker, Mary. "eBay: Whacking the Cover Off the Ball." Morgan Stanley Dean Witter Research. November 13, 1998.

98% positive feedback average, offer buyers a satisfaction guarantee, and keep their account in good standing. In return, PowerSellers members received a special PowerSellers icon next to their name, a PowerSellers display sign, dedicated e-mail customer support, and invitations to special events. Gold members even received a dedicated account manager and a 24-hour customer support hotline.

A second objective of the offsite was to clearly define eBay's brand positioning. By the end of the offsite the team had developed a brand positioning statement for eBay, which centered on the idea that eBay was a "personal trading community" where you can trade "practically anything on earth" and "be successful" doing it. By positioning eBay as a *personal* trading community for individuals—not big businesses—eBay distinguished itself from other auction sites that were positioned to serve merchants.

Delivering the Strategy

Streamlining and Strengthening the Organization The management team left the offsite with a brand positioning statement and a clear corporate vision: to be the world's largest online person-to-person trading community. Whitman knew the importance of making sure that vision was widely communicated and shared within the company. She believed that having a well-defined corporate vision facilitated rapid decision making since everyone then had a clear yardstick against which to assess a wide variety of strategic options. She next turned her focus to executing against that vision by streamlining the organization and strengthening the senior management team.

When Whitman joined eBay it was still an engineering-driven company. By design, the engineering organization had virtually no specialization. In fact, eBay's nine engineers shared responsibility for almost all activities including writing code, maintaining the site, and working on system administration. However, as the backlog of engineering projects grew, it became clear to Whitman that the structure was not working and was going to present even more of a challenge as the company grew. In May 1998, Whitman met with Omidyar and Mike Wilson, who had run the engineering group from the beginning, to discuss the issue. After a couple of hours of talking and sketching organizational charts, Wilson was still reluctant to subdivide the group. Whitman recalled: "He said, 'No. Everyone is going to continue to do everything; it's part of the magic of what I've created here.' Finally I said, 'Mike, I don't think that can actually work as we continue to grow.'" Wilson thought about the proposed change overnight and returned with a new organization chart characterized by Whitman as "better than Pierre and I could have done on our own."

In addition to changing the structure of engineering, Whitman and the team put in place systems that would enable consistent communication within eBay as the company grew. In order to provide a forum for more in-depth discussions on corporate strategies and initiatives, Whitman hosted full-day management team meetings once a quarter, held at an offsite location. Finally, to ensure consistent communication of eBay's strategy to its employees, Whitman held full company meetings once a quarter. In its early days, eBay had held full company meetings as often as once a week. By mid-1999, however, business and staff had grown to a point where this level of frequency was no longer feasible or efficient.

To strengthen the organization, Whitman felt she needed to add a handful of experienced executives to the company's management team and its board. Whitman believed the company would benefit from greater marketing, legal, and customer service expertise—especially if it wanted to achieve its aggressive growth targets.

On the marketing side, Whitman felt the company needed a more experienced marketing executive who could also work alongside her on general management issues. Whitman reflected on

her hiring criteria: “We needed someone who was classically trained in marketing, who understood market segmentation, was familiar with all the marketing levers, and was experienced in brand positioning.” Whitman worked with Kagle and Omidyar to identify potential candidates and quickly settled on Brian Swette—the former executive vice president and chief marketing officer for Pepsi-Cola. Swette joined eBay as senior vice president of marketing in August 1998. His responsibilities included marketing, international expansion, and customer support. With Swette’s arrival, the marketing function took on significantly more importance at the company.

At the time, eBay was not facing any serious legal issues, but as Whitman explained, “We just had a sixth sense that having a really experienced legal person was going to be very important.” Whitman and Gary Bengier, eBay’s CFO, successfully recruited Michael Jacobson to be eBay’s general counsel. Bengier had first met Jacobson—a partner and 17-year veteran of Cooley Godward LLP—while working on a complex transaction for a previous employer. Jacobson joined eBay in August 1998. (See Exhibit 7 for eBay’s organizational structure.) Whitman also believed that the company would benefit from having a few additional outside board members who could serve as accessible, knowledgeable mentors to her. Her goal was to add two board members who had founded successful companies that had created totally new markets. Based on this criterion, eBay recruited Scott Cook, the founder of Intuit Inc., and Howard Schultz, the founder of Starbucks Corporation, to join the board in June 1998. (See Exhibit 8 for background information on eBay’s executive officers and directors.)

eBay’s Internal Culture As the company grew, the team worked hard to preserve the unique internal culture of the company. In fact, Whitman met a different group of new hires each Monday morning to describe eBay’s values and to set expectations for how each employee would support and contribute to the company’s culture. eBay was careful to hire only individuals who fit with the culture. Omidyar explained this fit:

We not only look for someone who brings experience to the table, but also someone who really understands the importance of the community here. If I interview someone who says, “Wow. You’ve got a really loyal community of users. We can extract a lot of value out of them,” I know that’s the wrong type of person. On the other hand, if that person says, “Wow. You have a really loyal community of users. They are the real foundation of this company”—that’s the right tone of respect towards our community.

eBay’s management team described the culture at eBay as being “open” and “low-risk,” where employees were encouraged to voice opposing points of view. Mistakes were tolerated, but employees were expected to truly learn from them. Whitman embraced this tenet:

I’ve worked in a few companies where senior managers are so afraid of appearing “weak” that they stand by a point of view even in the face of better, more informed data. At eBay, we have a “no penalty” culture, meaning that there is no penalty for being on the wrong side of an issue or changing your mind in the face of better information. If you come to a meeting with one point of view and a colleague says something that convinces you that you’re wrong, the culture is to say, “O.K.—that’s smart. You’re right. Let’s move on.”

As role models, senior management had to act with a high degree of professionalism and respect. Whitman explained:

We don’t have “screamers” or “table pounders” here—it’s a pretty even-keeled culture. That’s not to say we don’t require excellent analysis—we do. We’re just different in *the way* we go about reaching decisions.

I knew from my experience the importance of having a united senior management team. That doesn't mean we don't have a debate. We have heated debates. We reach consensus or I make the decision. If I am wrong, I change it, and I don't take myself too seriously. But we made a pact that after the debate, we make a decision, and when we leave the room you support the position. Very early on, we were explicit about this.

Taking the Company Public

When Whitman signed on at eBay she was well aware of the company's plans to go public later in 1998. To position the company for a third quarter IPO, Bengier had already developed a pert chart, which became the "bible" against which the company executed. While the stock market had soared in the first half of 1998 (the Dow Jones Industrial Average gained more than 1000 points, or 13%, between January and July), it reversed course in mid-July, dropping 1723 points, or 18%, between July and September. Weathering challenging market conditions, eBay began its 10-day investor roadshow in September, during which Whitman made 79 presentations to 276 investors in 21 cities.

In spite of investor anxiety, eBay priced its shares on September 24, 1998, ending a 27-day dry spell for IPOs—the longest span in 18 years. eBay sold 3,500,000 shares at \$18 per share, raising \$58 million for the company.⁵ At \$18 per share, the company was valued at around \$700 million. On the first day of trading, the stock shot up to \$54 per share, before closing at \$48 per share, representing a market value of \$1.9 billion. In April 1999, eBay offered an additional 6.5 million shares to the public, raising another \$700 million for the company.⁶ By mid-May 1999, the stock had risen to around \$195 per share (after a 3:1 split in March 1999), giving the company a market value of \$24 billion. (See Exhibit 9 for eBay's stock price performance.)

Addressing Community Safety Issues

In the months following eBay's successful IPO, the company faced mounting criticism for its policy toward a number of issues related to community safety on its site, including the sale of illegal items, user fraud, deadbeat bidding,⁷ and shill bidding.⁸ Whitman and Omidyar bundled these issues together under the category of "community safety" because they shared a core common denominator—their presence could lead to an erosion of trust among eBay's users.

The Interactive Digital Software Association (IDSA) had been particularly vocal about the sale of illegal pirated computer games on eBay and had contacted the company repeatedly regarding the issue. While eBay's policy was to remove any infringing or illegal items that others had identified on its site, the company did not proactively screen for these items itself due to the implications this would have on the company's protection under the Digital Millennium Copyright Act (DMCA), which stipulated that online *publishers* were responsible for the content on their site, while online *venues* were not.

There had also been reports of fraud on the eBay site. For example, one that received national press coverage involved an Ohio woman who paid a seller on eBay close to \$1,800 for "Quackers"—a

⁵ Excluding underwriter fees of \$4.4 million.

⁶ Net of underwriter's fees and excluding proceeds to the selling stockholders.

⁷ Deadbeat bidding referred to bidders who bid on items but never intended to pay for them.

⁸ Shill bidding referred to a seller bidding on his or her own item to drive up the perceived interest and value of the item, by registering under different names and placing bids under those names.

rare Beanie Baby duck without wings—and instead received a common variety of Beanie Baby duck with the wings ripped off. eBay's response to complaints of fraud had been to encourage victims of fraud to report the incident to law enforcement authorities. For its part, eBay followed up on reports of fraud by having its Safe Harbor group—an in-house staff team formed in February 1998—investigate them. If the Safe Harbor group believed that a user had violated the site's community standards, the user would be terminated from the site, either temporarily or permanently. Since eBay never took ownership of the goods traded on its site—and therefore had no way to verify the accuracy of information posted on its site—the company never accepted liability for cases of fraud. However, eBay received a commission on each sale leading some consumer agencies to believe it could be held responsible. The National Consumer League—the nation's largest and oldest nonprofit consumer action group—was watching eBay closely, since their data showed that online auctions prompted five times the number of complaints as any other aspect of e-commerce.

While eBay's internal data showed that only 27 out of every one million transactions—or .003%—resulted in any report of fraud, Whitman knew how damaging this issue could be for a company like eBay that viewed user trust as a cornerstone of its business. However, any action Whitman took to more proactively deal with the broad range of fraud would be closely watched by the user community. eBay was designed to be a community where users assisted one another and played a role in shaping the site itself. Users were actively involved in providing customer support to each other via e-mail and bulletin boards on the site, and eBay devoted a separate bulletin board to user feedback on new site features. eBay's role had been to facilitate the interaction between buyers and sellers—not to play an active, visible role in the process. eBay had been careful not to impose many widespread policies on its site; instead it counted on its users to abide by its user agreement and take much of the responsibility for safeguarding the site themselves. (See Exhibit 10 for eBay's user agreement.) Mike Wilson noted: "Pierre's philosophy is 'make as few rules as possible and get out of the way.'"⁹ eBay users frequently formed "neighborhood watch groups" to help guard against misuse or violations of site etiquette and also were known to organize grassroots movements to improve the eBay environment.

While Whitman's instinct told her to take action, she knew that eBay's user community and her internal staff would bristle at any seemingly top-down or heavy-handed corporate response. A meeting with the board validated Whitman's initial insight:

I remember discussing the situation with the board and describing all the things we were already doing to address the problem when Howard [Schultz] stopped me and said, "Meg, it's about the character of the company." I sat back and thought about his comment and within five days we had changed our entire strategy to be much more proactive. It was really a seminal change for our company. But, it was all part of the graduation from a small company to a big company—when you realize that you no longer can focus on the legal arguments; you've got to be proactive simply because it's the right thing to do.

eBay's management team supported Whitman's decision to take a more proactive response after she explained to them just how precarious the situation had become with a host of the company's content partners and some law enforcement agencies. Whitman characterized the community safety issue as one that "could bring this company down." While Whitman's management team had some advance notice of Whitman's decision, most lower-level employees were quite taken aback by the abrupt change in policy.

⁹ "eBay, 'Cyberbia's' New Subdivision, Stokes a Boom." *Washington Post*. January 31, 1999. P. A01

eBay's response to the community safety issues included internal policy changes and the introduction of new optional protection services for users, which were introduced in January 1999. First, eBay worked more aggressively to identify illegal items appearing on the site. Those items were then further evaluated by an eBay staff member who determined whether the item should be removed from the site or not. However, even with clear guidelines for what was illegal, eBay staff members still had to make a number of judgment calls, which at times angered the user community. Whitman explained, "While some illegal or infringing items are obvious, there's also a lot of gray areas. For example, police badges are illegal for good reason, but what about a police badge from 1939. Is that illegal? So there are interesting shades of gray here. "

To address fraud, eBay gave users the option of having their identities verified by Equifax Inc.—an independent third-party firm. The company also provided customers with \$200 worth of complimentary insurance coverage, with a \$25 deductible, to protect against fraud or misrepresentation of goods. eBay would process claims and forward ones that appeared valid to Lloyd's of London, the insurance underwriter. Finally, the company improved its third-party escrow service so that it was easier and less expensive to use.

Addressing the Sale of Firearms In early 1999, eBay also came under increased scrutiny regarding its policy to allow the sale of guns and ammunition on its site. Critics argued that since the company could not always guarantee that buyers met all of the necessary qualifications and were in compliance with the various state laws governing the sale of firearms, the site should not permit their sale. In their view, it was not a question of *if* something bad would happen, but *when*. While legal firearms accounted for less than .25% of the 1.5 million items up for bid at any one time in early 1999, the potential problems associated with their sale had prompted eBay in 1998 to require credit card verification before users could buy or sell firearms. Some online auction sites, such as Yahoo! and Auction Universe, allowed only limited firearm listings, such as collectible guns. Others, such as Excite Auctions, did not offer a gun category at all. eBay was hesitant to eliminate the category because it was not technically illegal. Therefore, eliminating the category would represent a moral judgment call by the company, which was at odds with its historic hands-off approach.

While Whitman was sure that some in the user community would object, she made the hard decision in late January 1999 to eliminate all auctions of guns and ammunition from eBay. At first, she was concerned Omidyar might not agree with the decision, but he had come to the same conclusion independently. Whitman commented on their working relationship:

I never really did much at all without him, and I never made a major decision without talking to him about it. We came at things from completely different points of view, but we agreed 99.9% of the time. So that partnership was actually particularly effective. It helped me make better decisions because I listened to him, and it showed the organization that we were linked up beautifully and there was complete agreement.

Whitman and Omidyar held a company meeting to discuss the elimination of the firearms category and the change in approach it represented. Whitman commented on the meeting:

I was very honest with them. I told them, "We have made this huge change in strategy. Don't be confused. Yesterday, we had this policy about items on our site, we have now thought it through, and decided we have to eliminate the gun category. We feel we have to make this change in policy for the long-term health of the company and because it is the right thing to do." I also said, "What are we going to do when we wake up and read that someone has bought a gun on eBay and done real damage. We can't live with that." Although I did most of the talking, Pierre also took some of the questions. We both thought it was important for people to hear the decision framed in his words.

Industry analysts applauded the move. One analyst commented: "This is just responsible retailing."¹⁰ Investors also supported the move; eBay's stock rose almost 2% on the news. However, reaction from the eBay community was not as positive. One user wrote on the site's bulletin boards, "I am DISGUSTED."¹¹ Another wrote, "I am seriously considering taking all of my business elsewhere. Your cavalier attitude toward one set of legal products hints at a political agenda."¹² Even eBay admitted that community reaction was "largely" opposed to the ban.

Competitive Landscape

While managing the organizational changes and IPO, Whitman and her team vigilantly followed the actions of their competition. Drawn by the market's size, growth, and potential for attractive margins, a number of competitors had already entered the Internet auction market before and during Whitman's time at eBay, and more were certain to come. Prior to 1999, eBay's primary competitors had been On Sale, Excite, and Yahoo!—all of whom had entered the person-to-person trading market in 1998. However, the competitive landscape intensified significantly in March 1999 when Amazon.com (Amazon)—a leader in business-to-consumer e-commerce, with a reputation for being a fierce competitor—announced that it, too, would offer auctions on its site. Not only did the Amazon announcement directly threaten eBay's position, but it also had far-reaching implications for the future of e-commerce. As *Business Week* reported:

Indeed the budding behemoths present a fundamental choice for consumers in the Internet Age: will most people gravitate toward fixed prices at the likes of Amazon's clean, well-lighted superstore, with its familiar brand-name retail sheen? Or will the masses take a shine to dynamic pricing, the fluid give-and-take on eBay's friendly, funky swap meet cybercharged into a global bazaar?¹³

In addition to these competitors, eBay believed others would emerge in the future, including some of the large domestic entertainment companies. Swette explained:

I view this as an experiential brand of entertainment. It's more than just a functional transaction. There's a lot of emotional grounding in trading on eBay that goes well beyond the item for sale. It's about the "thrill of the hunt." Given that, it is likely that some of the large entertainment companies will enter the online auctions market and leverage their media properties to put a greater level of entertainment spin behind it.

As a result of these competitive pressures, eBay felt it was essential to maintain its critical mass of users. In fact, continuing to attract new users and retain existing users was an essential component of eBay's strategy. As Whitman explained, "I'm not worried about Amazon or Yahoo! poaching our existing set of users. Our rate of retention is superb. Consequently, it's all about the battle for new consumers. That's why we have to grow faster than our competitors and get people to come to eBay first."

¹⁰ "eBay Halts Sales of Guns, Ammo Over Internet." *The San Francisco Chronicle*. February 20, 1999. P. D1.

¹¹ "eBay Shoots Down Online Gun Sales." *The Washington Post*. February 20, 1999. P. EO1.

¹² Ibid.

¹³ "In the Ring—eBay vs. Amazon.com." *Business Week*. May 31, 1999. P. 129.

eBay's management team was committed to achieving their reaffirmed and adapted vision—to become the largest online personal trading community. To that end, they engaged in a series of organizational changes, strategic partnerships, and acquisitions in a brief period of time.

Expanding Customer Support Capabilities

eBay's approach to customer support had evolved over time. During the first two years, eBay employed a "remote" customer support model, in which the company hired active, knowledgeable, and respected members of its own user community to serve as customer support representatives (reps). These hourly-paid reps worked out of their homes, answering emails and responding to questions posted on the site's bulletin boards. By using its own enthusiastic, geographically dispersed users as customer support reps, eBay was able to cost-effectively offer "24/7" customer support early on. eBay's decision to employ its own users also reinforced the company's respect for—and willingness to empower—its user community. Whitman described the advantages of the remote customer support model: "The remote reps are incredibly well connected to the eBay community and offer a very high degree of personalization, since they know eBay and its users so well."

In 1997, eBay expanded its customer support model to include a small cadre of customer support reps who worked out of eBay's San Jose headquarters. eBay management believed that having such a customer support staff would help the company stay better informed of emerging customer support issues and enable the company to better supervise its remote reps. By the time Whitman joined eBay, there were approximately 30 remote reps and 10 headquarters reps. By the time of its IPO, the numbers had grown to approximately 70 remote reps and 30 headquarters reps.

As eBay's business soared in Q1 1999—gross merchandise sales grew 76% in the first quarter—so too did customer support inquiries, swamping eBay's customer support reps. As a result, Whitman decided eBay needed a senior staff member dedicated to customer support issues. Her search led her to Matt Bannick, a Harvard Business School graduate who had worked for McKinsey & Co. and Navigation Technologies, a global maker of map navigation systems. Bannick joined eBay in January 1999 as vice president of customer support, reporting to Brian Swette. In February 1999, eBay expanded the "Safe Harbor" group and introduced a new specialized customer support group—the "Community Watch" group, which was dedicated to monitoring the site for illegal and infringing activities.

The company went a step further and opened its first remote customer support center in Salt Lake City, Utah. The location offered cost advantages over San Jose and a highly bilingual population as a result of the Mormon Church's focus on international missionary work. Eventually, eBay planned to move its Community Watch group and its Safe Harbor group from San Jose to Salt Lake City in order to turn the center into a complete "center of excellence" for eBay's customer support function. Due to the growing importance of customer support, Whitman decided Bannick should report directly to her.

Even with the new center, eBay planned to retain its remote and San Jose-based reps. However, all *new* reps hired would work out of the Salt Lake City facility. eBay hired RemedyTemp—a national provider of temporary staffing services—to hire several hundred customer support employees for the Salt Lake City center. After a 90-day training period, these temps would become full-time eBay employees.

Strategic Partnership Agreement with AOL

In March 1999, eBay entered into one of the largest strategic partnerships on the Internet—a four-year, \$75 million joint marketing and development deal with America Online (AOL). While eBay and AOL had had a \$12 million marketing alliance in place since 1997, the new agreement was significantly farther reaching. Under the 1999 agreement, AOL and eBay would jointly develop auction sites for AOL's flagship online service and all of AOL's other properties, including the CompuServe online service, NetCenter Web site, AOL Web site, and the ICQ instant messaging service. In addition, eBay would be the exclusive auction site featured on AOL and receive "prominent presence" on AOL's various properties, giving eBay broad exposure to AOL's 16 million members—the biggest pool of Internet users on any single service. In return, AOL would be promoted as eBay's "preferred online service"—giving AOL exposure to eBay's 2.1 million registered users. In addition to eBay's \$75 million payment,¹⁴ AOL would also receive all ad revenues that were generated from the co-branded sites. Featuring advertising on an eBay site was a departure in policy for eBay, which had never permitted much advertising on its site due to concerns about the potential dichotomy between commercialization and its user-orientation. However, for the jointly developed sites, eBay would welcome ads for "shipping companies, packing supplies and other services that could help our users" according to Whitman.¹⁵ eBay also planned to use AOL's international experience and community Web sites to pursue its international and local auction growth strategy.

Investors cheered the agreement. An analyst commented: "It's a very, very sound strategic move. It makes a lot of sense for both companies."¹⁶ eBay's shares closed up 10% on the news.

Acquiring Butterfield & Butterfield

In April 1999, eBay agreed to purchase San Francisco-based Butterfield & Butterfield (Butterfield)—one of the world's oldest and most prestigious auction houses—for \$260 million in stock. In 1998, Butterfield generated net revenues of \$21 million and profits of \$1.5 million.¹⁷ The acquisition allowed eBay to attract more affluent customers and enter the market for higher-end goods. The average item at Butterfield sold for \$1,400, compared with eBay's \$47 average. Since eBay received a percentage of the final auction price, higher-priced auctions generated greater revenue for eBay. Moreover, since eBay had a relatively fixed cost structure, higher-priced items resulted in significantly higher margins for the company. (See Exhibit 11 for an example.) While Butterfield was much smaller than its rivals—Sotheby's Holdings Inc. and Christie's International PLC—it had moved far more aggressively than its competitors in embracing Internet auctions. In February 1999, Butterfield held an online auction, which generated over \$400,000 through the sale of an assortment of memorabilia, including O.J. Simpson's Heisman trophy. Whitman commented on the deal: "We will be able to bring fine and decorative art and collectibles online, allowing eBay members unprecedented access to many of the world's outstanding collections."¹⁸

¹⁴ Payment would be made over a four-year period.

¹⁵ "eBay Forms AOL Marketing Alliance." *The Wall Street Journal*. March 26, 1999. P. A12.

¹⁶ "AOL, eBay in \$75M Marketing Alliance." *National Post*. March 26, 1999. P. C08.

¹⁷ "Butterfield Bid Moves eBay Upmarket." *The Globe and Mail*. April 27, 1999. P. B12.

¹⁸ "eBay Agrees to Buy Butterfield & Butterfield." PR Newswire. April 26, 1999.

Industry analysts applauded the move. Nicole Vanderbilt of Jupiter Communications commented, "It helps eBay diversify beyond Beanie Babies."¹⁹ Investors also reacted favorably, bidding up the stock 3% on the day of the announcement. However, user reaction was not as positive. One user wrote: "It seems that the 'junk' that brought Pierre millions is just not good enough anymore."²⁰ Another wrote: "The Average Guy and Average Girl made this behemoth what it is. This is the thanks you get, kids. You made it possible for eBay to become what it wants to become."²¹

The Decision

Whitman knew she needed to think through the stress that growth placed on the internal and external cultures, but the pace of activity had been so brisk since she had joined eBay that it had been hard to find time to step back and reflect. In fact, the seemingly endless external demands on her time (e.g., interviews, meetings with analysts) made her wonder whether she needed to hire a COO—as several other well-known Internet companies had done—to focus on internal management tasks. She hoped the next month would be less frenzied so that she could spend more time thinking through these issues.

Her urgent task was to determine whether eBay should acquire Kruse. From the capital market's point of view, there was virtually no option of taking a "go slow" strategy. Growth was good for both the company and eBay's users, since a broader selection of items brought more buyers, which in turn attracted more sellers—the ultimate network effect. But the volume of emails she was receiving from the community about the Butterfield and Butterfield acquisition had not let up. And she wondered if the internal community could cope with another acquisition at this juncture. The company's rapid growth had already put some strain on the company both internally and externally.

Internally, one of eBay's most significant challenges had been scaling the organization fast enough. The company added 60 people to its 135-person staff in the first quarter of 1999 alone (the plan had called for 85 new hires). eBay projected that by the end of Q2 1999, the company would have over 300 in-house employees and another 300 or so employees in companies that it had acquired. Similarly, the number of registered eBay users was also expected to soar as a result of the AOL alliance, the Butterfield acquisition, and, now, potentially the Kruse acquisition. This rate of growth would put even more pressure on the company's technical systems, which had faced several outages over the past year. The company pointed out in its prospectus that "if we experience frequent or persistent system failures, our reputation and brand could be permanently harmed."²² Omidyar commented on the cultural challenges that rapid growth also presented:

Scaling the community and organization rapidly represents a major challenge in terms of being sure our values and culture are being communicated correctly. On the organizational side, we have to be sure we are hiring quality employees who fit with the culture—we can't afford to let that slip. On the external side, at the rate we are growing, we have more new people using the service in a quarter than the total number of people who had been using the service in the previous quarter. When that happens, how do the values of the community get communicated to those new people? In the past, those values were communicated person-to-person; most users would come on as buyers

¹⁹ "Butterfield Bid Moves EBay Upmarket." *The Globe and Mail*. April 27, 1999. P. B12.

²⁰ "Meg Muscles eBay Uptown." *Fortune*. July 5, 1999. P. 81.

²¹ *Ibid.*

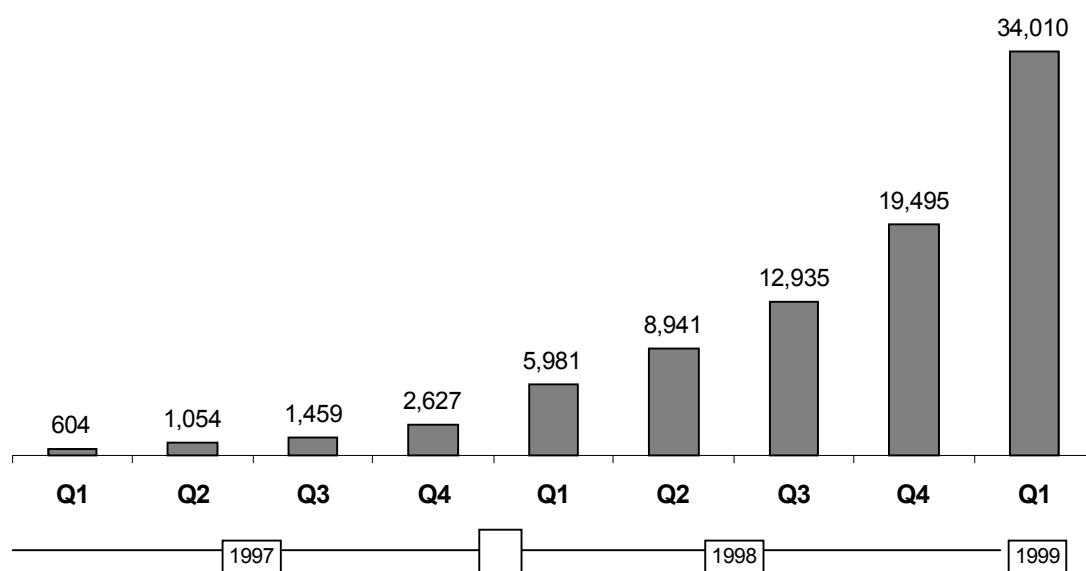
²² EBay's Prospectus. April 12, 1999.

and interact with an experienced seller, so the right values were being communicated through that interaction. But as more and more new people interact with one another, they have no basis on which to communicate values.

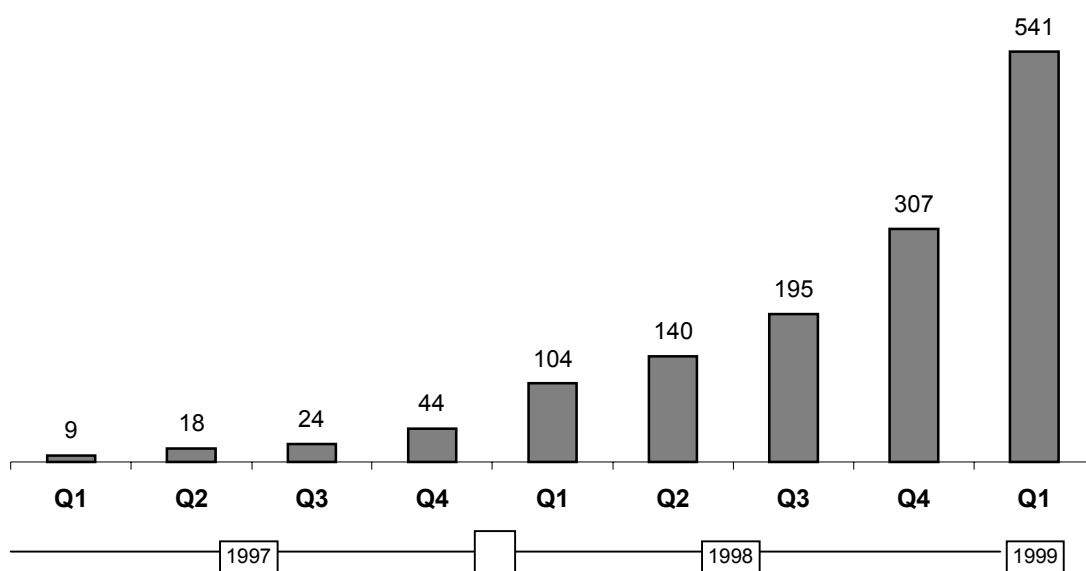
If she went through with the Kruse deal, Whitman would still need to figure out how closely to integrate Kruse into eBay. Should they allow Kruse to remain in Indianapolis and retain complete control over its day-to-day operations and its 80-person staff? Or, should they integrate them more thoroughly into the company, even adding Dean Kruse, Kruse's Chairman of the Board, to eBay's senior management team? If Kruse did join, how should she manage his introduction to the team?

Whitman pondered her dilemma:

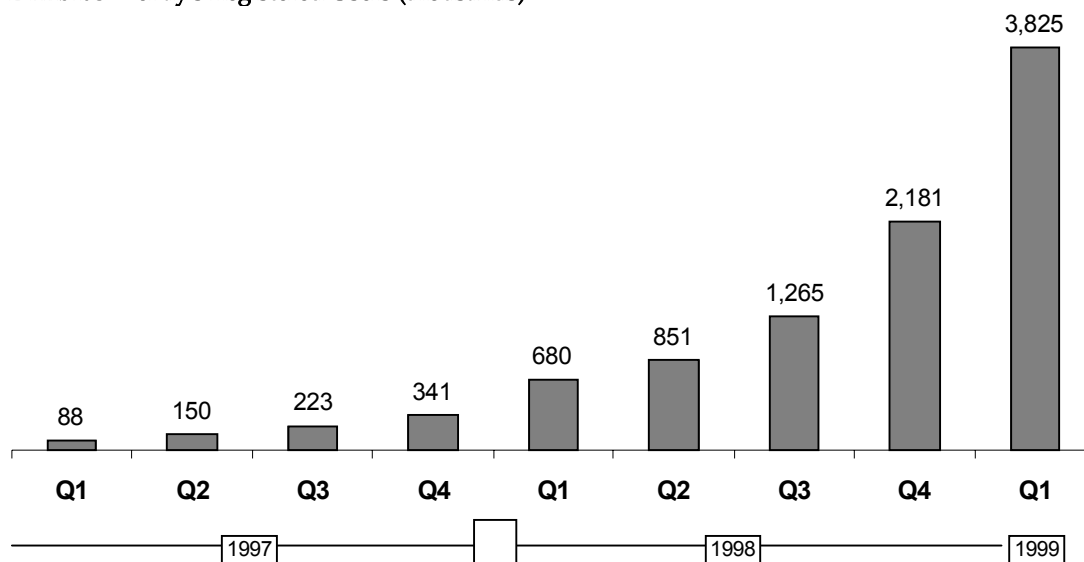
At its core, eBay is not about auctions. Auctions are an enabler. Auctions make it fun. Auctions represent a platform. But eBay is really about a unique sense of community that eBay users are creating for themselves. Can eBay get big while staying small?

Exhibit 1 eBay's Net Revenue by Quarter (\$ thousands)

Source: eBay, Inc.

Exhibit 2 eBay's Gross Merchandise Sales by Quarter (\$ millions)

Source: eBay, Inc.

Exhibit 3 eBay's Registered Users (thousands)

Source: eBay, Inc.

Exhibit 4 Background on the Internet

Internet usage soared during the 1990s due to increased penetration of personal computers, improvements in modem performance, and—perhaps most important—the introduction of user-friendly browsers that made accessing the World Wide Web easy and inexpensive. While figures varied, International Data Corporation (IDC)—a leading research firm—projected that the number of Internet users worldwide would grow from 97 million at the end of 1998 to 320 million by the end of 2002—a 35% compound annual growth rate. No other mass medium in history had experienced the rapid adoption rate of the Internet. It had taken just 5 years for the Internet to reach 50 million North American households, compared to 38 years for radio, 13 years for television, and 10 years for cable.

As consumers became more familiar with the Web, they began to look for ways that it could add value to their lives. E-commerce grew in popularity as Web security improved and consumers grew more aware of the benefits e-commerce offered over the traditional retail channel, including greater convenience, lower prices, greater selection, and access to more product information. IDC projected that the total value of products and services sold over the Internet by retailers, catalogers, and online merchants would grow from \$26 billion in 1998 to \$268 billion in 2002.

For most consumers, the first stop on the Internet was at a “portal”—a Web site that typically aggregated information and helped users navigate through the Web (e.g., Yahoo!, AOL.) Since portals attracted so many “eyeballs,” they also attracted advertisers who paid for ads that usually enabled consumers to “click-through” to the advertiser’s Web site for further information and, in some cases, the opportunity to purchase the advertised item. As portals gained in importance, the rates they charged for advertising increased. However, for many e-commerce companies, portal advertising had become a necessary means of driving traffic to their sites. In addition to portals, a

number of other consumer e-commerce business models had emerged, including product Web sites (e.g., The Gap), shopping destinations (e.g., Amazon.com), business-to-consumer auctions (e.g., OnSale), and person-to-person trading venues (e.g., eBay.)

Exhibit 5 Example from eBay's Feedback Forum

Overall profile makeup

359 positives. 298 are from unique users and count toward the final rating.

2 neutrals. 1 are from users no longer registered.

1 negatives. 1 are from unique users and count toward the final rating.

eBay ID card			
eBay user (1) ★			
Summary of Most Recent Comments			
	Past 7 days	Past month	Past 6 mo.
Positive	19	83	351
Neutral	0	0	2
Negative	0	1	1
Total	19	84	354

Alcitra by eBay user (1)

Note: There is 1 comment that was converted to neutral because the commenting user is no longer registered.

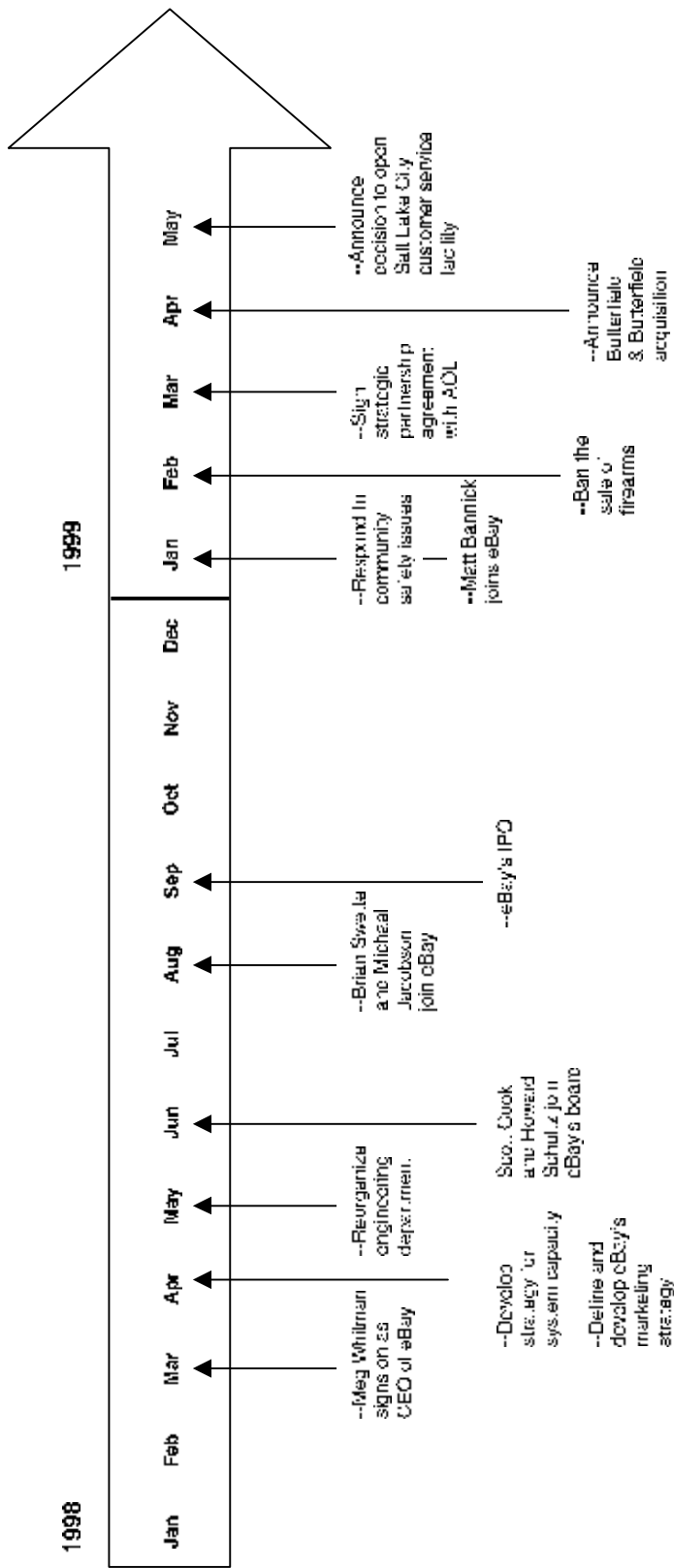
You can leave feedback for this user. Visit the [Feedback Forum](#) for more info on feedback profiles.

If you are [eBay user \(1\)](#) ★, you can [respond to comments](#) in this Feedback Profile.

Items 1-25 of 361 total		
= 1 = [2] [3] [4] [5] [6] [7] [8] [9] [10] [11] [12] [13] [14] [15] (next page)		
User: cbako@aol.com (6)	Date: 08/01/99, 17:45:55 PDT	Item: 127064336
Praise: Great Coin,honest grade,thanks again Bob!		
User: hsower (115)	Date: 07/31/99, 21:15:19 PDT	Item: 130391511
Praise: great coin, smooth transaction		
User: cmbmo (6)	Date: 07/31/99, 20:51:17 PDT	Item: 127061142
Praise: AAA+ Coin and service , thanks Bob		

Source: www.eBay.com

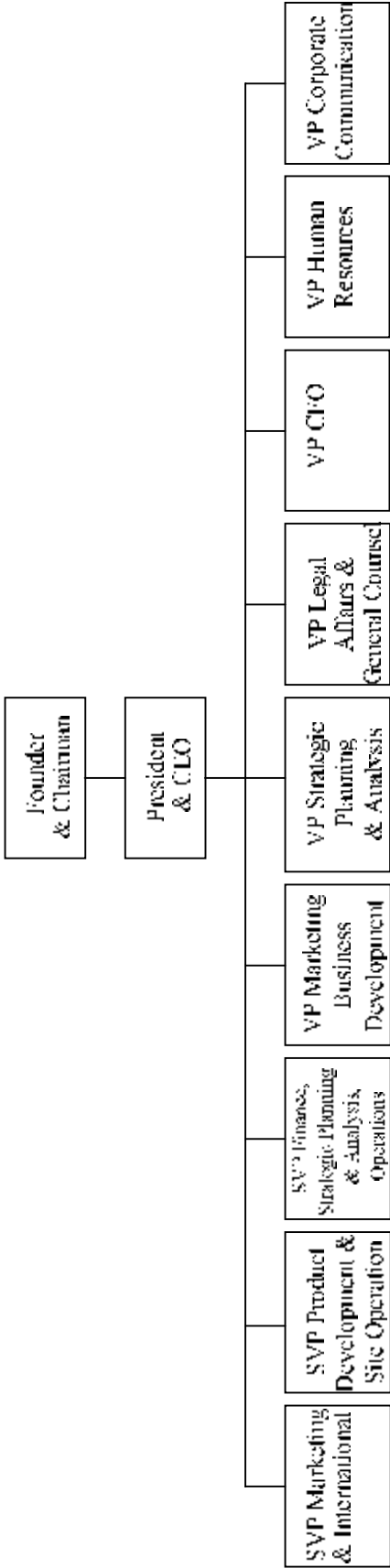
Exhibit 6 Timeline of Key Activities during Whitman's Tenure



Source: eBay interviews; literature searches.

Exhibit 7 eBay Organizational Chart

Executive Staff



Source: eBay Inc.: Copied directly from company organizational chart.

Exhibit 8 Background on eBay's Executive Officers and Directors

Pierre M. Omidyar founded eBay as a sole proprietorship in September 1995. He has been a director and Chairman of the Board since eBay's incorporation in May 1996 and also served as its Chief Executive Officer, Chief Financial Officer and President from inception to February 1998, November 1997 and August 1996, respectively. Prior to founding eBay, Mr. Omidyar was a developer services engineer at General Magic, a mobile communication platform company from December 1994 to July 1996. Mr. Omidyar co-founded Ink Development Corp. (later renamed eShop) in May 1991 and served as a software engineer there from May 1991 to September 1994. Prior to co-founding Ink, Mr. Omidyar was a developer for Claris, a subsidiary of Apple Computer, and for other Macintosh-oriented software development companies. Mr. Omidyar holds a B.S. degree in Computer Science from Tufts University.

Margaret C. Whitman has served as President and Chief Executive Officer of eBay since February 1998 and a director since March 1998. From January 1997 to February 1998, she was General Manager of the Preschool Division of Hasbro Inc., a toy company. From February 1995 to December 1996, Ms. Whitman was employed by FTD, Inc., a floral products company, most recently as President, Chief Executive Officer and a director. From October 1992 to February 1995, Ms. Whitman was employed by The Stride Rite Corporation, in various capacities, including President, Stride Rite Children's Group and Executive Vice President, Product Development, Marketing & Merchandising, Keds Division. From May 1989 to October 1992, Ms. Whitman was employed by The Walt Disney Company, an entertainment company, most recently as Senior Vice President, Marketing, Disney Consumer Products. Before joining Disney, Ms. Whitman was at Bain & Co., a consulting firm, most recently as a Vice President. Ms. Whitman currently serves on the board of directors of Staples, Inc. Ms. Whitman holds an A.B. degree in Economics from Princeton University and an M.B.A. degree from the Harvard Business School.

Matthew J. Bannick has served as eBay's Vice President of Customer Support since January 1999. Prior to joining eBay, Mr. Bannick was the Senior Vice President of Marketing for Navigation Technologies, a maker of up-to-date navigable map databases. From 1993 to 1995, Mr. Bannick worked as a consultant for McKinsey & Company in San Francisco. Mr. Bannick holds an M.B.A. degree from the Harvard Business School.

Gary F. Bengier has served as Chief Financial Officer and Vice President Operations of eBay since November 1997. From February 1997 to October 1997, Mr. Bengier was Vice President and Chief Financial Officer of VXTreme, Inc. a developer of Internet video streaming products. Prior to that time, Mr. Bengier was Corporate Controller at Compass Design Automation, a publisher of electronic circuit design software, from February 1993 to February 1997. Mr. Bengier has also held senior financial positions at Kenetech Corp., an energy services company, and Qume Corp., a computer peripherals company, where he participated in numerous debt and equity financing transactions. Prior to joining Qume in 1989, Mr. Bengier spent six years at Bio-Rad Laboratories and held varied financial management roles. Mr. Bengier also spent several years as a management consultant for Touche Ross & Co. Mr. Bengier holds a B.B.A. degree in Computer Science and Operations Research from Kent State University and an M.B.A. degree from the Harvard Business School.

Michael R. Jacobson has served as eBay's Vice President, General Counsel and Secretary since August 1998. From 1986 to August 1998, Mr. Jacobson was a partner with the law firm of Cooley Godward LLP, specializing in securities law, mergers and acquisitions and other transactions. Mr. Jacobson holds an A.B. degree in Economics from Harvard College and a J.D. degree from Stanford Law School.

Jeffrey S. Skoll has served as eBay's Vice President Strategic Planning and Analysis since February 1998, its President from August 1996 to February 1998 and as a director from December 1996 to March 1998. From July 1995 to July 1996, Mr. Skoll served as Channel Marketing Manager for Knight-Ridder Information Inc., an online information services company and from September 1993 to July 1995 was a student at the Stanford Graduate School of Business. Prior to that time, Mr. Skoll was President of Skoll Engineering, a systems consulting firm that he founded, from September 1987 to August 1993. Mr. Skoll also co-founded Micros on the Move Ltd., a computer rentals company, as an adjunct to Skoll Engineering in 1990. Mr. Skoll holds a B.a.S.C. degree in Electrical Engineering from the University of Toronto and an M.B.A. degree from the Stanford Graduate School of Business.

Brian T. Swette has served as eBay's Senior Vice President of Marketing and International since August 1998. From 1981 to June 1998, Mr. Swette was employed by Pepsi-Cola Beverages, a global beverage company, in various capacities including Executive Vice President and Chief Marketing Officer—Global Beverages from March 1996 to June 1998, Executive Vice President Marketing—North America from September 1994 to March 1996, Senior Vice President and General Manager of New Business from February 1992 to September 1994, Senior Vice President Marketing and Strategy—North America from 1990 to 1991, Vice President North Latin America—General Manager from 1986 to 1989, Director of Marketing Planning and Development—Pepsi International from 1984 to 1986 and Country Manager—Brazil from 1981 to 1984. Before joining Pepsi-Cola Beverages, Mr. Swette worked in various capacities for Procter & Gamble from 1977 to 1981. Mr. Swette currently serves on the board of directors of J. Crew Apparel. Mr. Swette holds a B.S. degree in Economics from Arizona State University.

Steven P. Westly has served as eBay's Vice President of Marketing and Business Development since August 1997. From July 1996 to August 1997, Mr. Westly was Vice President, Business Development of WhoWhere?, an Internet directory and Web-based email company. Prior to that time, Mr. Westly was Director of Sales for Netcom, an Internet service provider, from August 1995 to July 1996 and was Deputy Director of Office of Economic Development, City of San Jose, California, from April 1991 to August 1995. Before joining the Office of Economic Development, Mr. Westly served as President of Codd and Date International, a relational database consulting firm, from January 1990 to March 1992 and was the Managing Director of Bridgemere Capital, an investment banking firm, from 1987 to 1990. Mr. Westly holds a B.A. degree in History from Stanford University and an M.B.A. degree from the Stanford Graduate School of Business.

Michael K. Wilson has served as eBay's Senior Vice President Product Development and Site Operations since February 1999, and Vice President Product Development and Site Operations from January 1997 through January 1999. From October 1995 to January 1997, Mr. Wilson was Vice President of WELL Engaged, L.L.C., a wholly owned subsidiary of The Well, a software company. Prior to that time, Mr. Wilson was an engineer for daVinci Time and Space, a television company, from February 1995 to October 1995, an engineer for eShop, a software company, from February 1992 to August 1994 and a Director of Mainframe Engineering for Neuron Data, an engineering company, from 1987 to 1991. Before joining Neuron Data, Mr. Wilson worked in several capacities at Oracle Corporation from 1983 to 1987, Chevron from 1979 to 1983, and Macy's from 1975 to 1979.

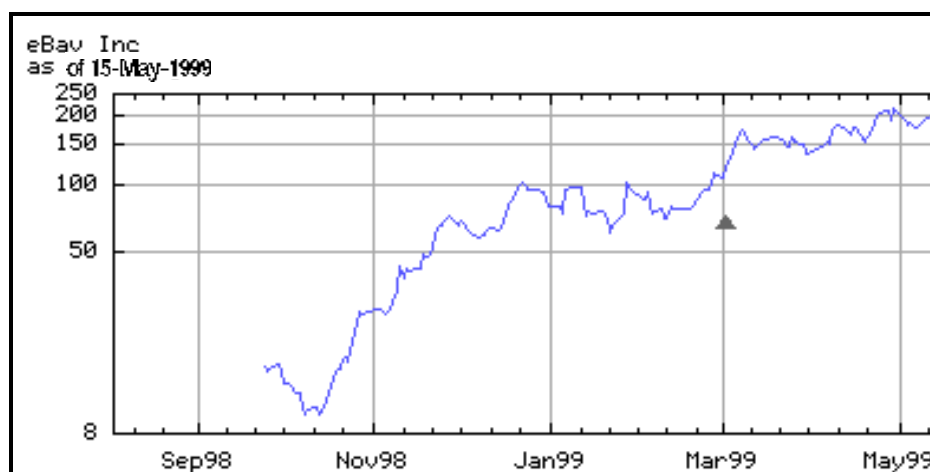
Scott D. Cook has served as a director of eBay since June 1998. Mr. Cook is the founder of Intuit Inc. and has been a director of Intuit, a financial software developer, since March 1984 and its Chairman of the Board since March 1993. From March 1984 to April 1994, Mr. Cook served as President and Chief Executive Officer of Intuit. Mr. Cook also serves on the board of directors of Amazon.com. Mr. Cook holds a B.A. degree in Economics and Mathematics from the University of Southern California and an M.B.A. degree from the Harvard Business School.

Robert C. Kagle has served as a director of eBay since June 1997. Mr. Kagle has been a Member of Benchmark Capital Management Co., L.L.C., the General Partner of Benchmark Capital Partners, L.P. and Benchmark Founders' Fund, L.P., since its founding in May 1995. Mr. Kagle also has been a General Partner of Technology Venture Investors since January 1984. Mr. Kagle holds a B.S. degree in Electrical and Mechanical Engineering from the General Motors Institute (renamed Kettering University in January 1998) and an M.B.A. degree from the Stanford Graduate School of Business.

Howard D. Schultz has served as a director of eBay since June 1998. Mr. Schultz is the founder of Starbucks Corporation, a provider of gourmet coffee, and has been its Chairman of the Board and Chief Executive Officer since its inception in 1985. From 1985 to June 1994, Mr. Schultz was also President of Starbucks. Mr. Schultz was the director of Retail Operations and Marketing for Starbucks Coffee Company, a predecessor to Starbucks from September 1982 to December 1985 and was the Chairman of the Board, Chief Executive Officer and President of 11 Giornale Coffee Company, a predecessor to Starbucks, from January 1986 to July 1987. Mr. Schultz is also one of two founding members of Maveron LLC, a company providing advisory services to consumer-based businesses, and is one of two members of a limited liability company that serves as a general partner of its affiliated venture capital fund, Maveron Equity Partners, L.P. (together, "Maveron").

Source: eBay, Inc. Prospectus, April 12, 1999.

Exhibit 9 eBay's Stock Price Performance



^ = 3:1 stock split on March 2, 1999.

Source: www.Yahoo.com

Exhibit 10 eBay's User Agreement**Revised User Agreement**

THE FOLLOWING DESCRIBES THE TERMS ON WHICH EBAY OFFERS YOU ACCESS TO OUR SERVICES. BY PRESSING THE "I ACCEPT" BUTTON, YOU ACCEPT THE TERMS AND CONDITIONS BELOW.

Welcome to eBay Inc.'s User Agreement. This Agreement describes the terms and conditions applicable to your use of our services at eBay.com. By clicking the "I Accept" button, you accept the terms and conditions of this Agreement. If you do not accept these terms and conditions or have any questions that our User Agreement Frequently Asked Questions (at <http://pages.ebay.com/help/basics/f-agreement.html>) or our User Agreement Revision Frequently Asked Questions (at <http://pages-new.ebay.com/help/community/png-user.html>) cannot answer, please contact agree-questions@ebay.com.

We may amend this Agreement at any time by posting the amended terms on our site. If you wish to receive an email update for each amendment to this Agreement please click the check box at the bottom of this page. The amended terms shall automatically be effective 30 days after they are initially posted on our site. This Agreement may not be otherwise amended except in a writing signed by both parties. This agreement was revised on March 31, 1999.

1. **Eligibility for Membership.** Our services are available only to individuals who can form legally binding contracts under applicable law. Without limiting the foregoing, our services are not available to minors. If you do not qualify, please do not use our services. eBay may refuse our services (such as, but not limited to listings, chat, and bidding) to anyone at any time, in our sole discretion.
2. **Fees.** Joining eBay is free. Our then-current Fees and Credit Policies for selling items on eBay are available at <http://pages.ebay.com/help/sellerguide/selling-fees.html>, and are incorporated herein by reference. Unless otherwise stated, all fees are quoted in U.S. Dollars. You are responsible for paying all applicable taxes and for all hardware, software, service and other costs you incur to bid, buy, procure a listing from us or access our servers. We may in our sole discretion add, delete or change some or all of our services at any time.
3. **eBay is Only a Venue.** Our site acts as the venue for sellers to conduct auctions and for bidders to bid on sellers' auctions. We are not involved in the actual transaction between buyers and sellers. As a result, we have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items. We cannot and do not control whether or not sellers will complete the sale of items they offer or buyers will complete the purchase of items they have bid on. In addition, note that there are risks of dealing with foreign nationals, underage persons or people acting under false pretense.

Because user authentication on the Internet is difficult, eBay cannot and does not confirm that each user is who they claim to be. Therefore, because you must be careful in dealing with other users to avoid fraud, we have established a user-initiated feedback system to help you evaluate who you are dealing with. We also encourage you to communicate directly with a trading partner to help you evaluate with whom you are dealing. Please practice safe trading. If you have any concerns

about your trading partner, please consider the use of a third party escrow service or services that provide additional user verification. Such services are available on our helpful Buying and Selling Tools page (at <http://pages.ebay.com/services/buyandsell/index.html>).

Because we do not and cannot be involved in user-to-user dealings, in the event that you have a dispute with one or more users, you release eBay (and our agents and employees) from claims, demands and damages (actual and consequential) of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way connected with such disputes. If you are a California resident, you waive California Civil Code §1542, which says: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

For legal reasons, we cannot nor do we try to control the information provided by other users which is made available through our system. By its very nature, other people's information may be offensive, harmful or inaccurate, and in some cases will be mislabeled or deceptively labeled. We expect that you will use caution—and common sense—when using our site.

4. Bidding and Buying. As a bidder, if you have the highest bid at the end of the auction, at or above the minimum bid price (or in the case of reserve auctions, at or above the reserve price), and your bid is accepted by the seller, you are obligated to complete the transaction. Bids are not retractable except in exceptional circumstances such as the seller materially changing the description of the item after your bid or clear typographical errors, or when you can not authenticate the identity of the seller. You may not bid in a way that pulls other bidders to their maximum bid, retract the high bid, and then rebid at a small increment above the legitimate high bidder (bid manipulation). If you choose to bid on adult items, you are certifying that you have the legal right to purchase items intended for adults only.
5. Listing and Selling. Listings are text descriptions, graphics and pictures on eBay's web site supplied by you that either (a) textually describe the item you are listing for auction, or (b) link to the text, graphics and picture(s) describing the item you are listing for auction. You may post on eBay's site either or both of these listing types, provided that you place such listings in an appropriate category. All Dutch auction items must be identical (the size, color, make, and model all must be the same for each item). At any given time you may not promote identical items in more than seven listings (whether Dutch or Regular auction style) on the web site.

If you receive one or more bids at or above your stated minimum price (or in the case of reserve auctions, at or above the reserve price), then you are obligated to complete the transaction with the highest bidder, unless there is an exceptional circumstance, such as (x) the buyer fails to meet the terms of your listing (such as payment method), or (y) you cannot authenticate the identity of the buyer. You may not email bidders in a currently open auction being run by a different seller, offering similar or the same items at any price level (bid siphoning), nor may you use an alias to place bids on your auction for any reason.

Without limiting any other remedies, eBay may suspend or terminate your account if you are found (by conviction, settlement, insurance or escrow investigation, or otherwise) to have engaged in fraudulent activity in connection with our site.

eBay's Legal Buddy/VeRO Program works to ensure that the items listed for auction do not infringe upon the copyright, trademark or other rights of those third parties. Legal Buddy Program/VeRO Members have the ability to report infringing auction items, which are thereby expeditiously removed. Legal Buddy/VeRO Program Members have direct access to some of your personally identifiable information as described in the Privacy Policy. eBay cooperates with Legal Buddy/VeRO Program Members and with local, state and federal law enforcement in enforcement actions. Without limiting other remedies, eBay will suspend or terminate your account if you repeatedly infringe third party intellectual property rights.

6. Your Information. Your information includes any information you provide to us or other users during the registration, bidding or listing process, in any public message area (including the Café or the feedback area) or through any email feature (defined herein as "Your Information"). With respect to Your Information:

6.1 You are solely responsible for Your Information, and we act as a passive conduit for your online distribution and publication of Your Information. However, we may take any action with respect to such information we deem necessary or appropriate in our sole discretion if we believe it may create liability for us or may cause us to lose (in whole or in part) the services of our ISPs or other suppliers.

6.2 Your Information and your items for sale on eBay: (a) shall not be fraudulent or involve the sale of counterfeit or stolen items; (b) shall not infringe any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy; (c) shall not violate any law, statute, ordinance or regulation (including without limitation those governing export control, consumer protection, unfair competition, antidiscrimination or false advertising); (d) shall not be defamatory, trade libelous, unlawfully threatening or unlawfully harassing; (e) shall not be obscene or contain child pornography or, if otherwise harmful to minors, shall be posted only in the Adults Only section and shall be distributed only to people legally permitted to receive such content; (f) shall not contain any viruses, Trojan horses, worms, time bombs, cancelbots or other computer programming routines that are intended to damage, detrimentally interfere with, surreptitiously intercept or expropriate any system, data or personal information; and (g) shall not link directly or indirectly to or include descriptions of goods or services that: (i) are prohibited under this Agreement; (ii) are identical to other items you have up for auction but are priced lower than your auction item's reserve or minimum bid amount; (iii) are concurrently listed for auction on a web site other than eBay's; or (iv) you do not have a right to link to or include. Furthermore, you may not post on our site or sell through our site any: (x) item that, by paying to us the listing fee or the final value fee, could cause us to violate any applicable law, statute, ordinance or regulation, or (y) item that is currently on eBay's Prohibited Items List (at <http://pages.ebay.com/help/community/prohibited-items.html>), and incorporated herein, which may be updated from time to time.

6.3 Solely to enable eBay to use Your Information you supply us with, so that we are not violating any rights you might have in that information, you agree to grant us a

non-exclusive, worldwide, perpetual, irrevocable, royalty-free, sublicenseable (through multiple tiers) right to exercise the copyright and publicity rights (but no other rights) you have in Your Information, in any media now known or not currently known, with respect to Your Information. eBay will only use Your Information in accordance with our Privacy Policy.

7. **No Price Manipulation.** Sellers may not manipulate the price of their item, either by using a shell (a secondary account or third party) or by bidding themselves.
8. **System Integrity.** You may not use any device, software or routine to interfere or attempt to interfere with the proper working of the eBay site or any auction being conducted on our site. You may not take any action which imposes an unreasonable or disproportionately large load on our infrastructure. You may not disclose or share your password to any third parties or use your password for any unauthorized purpose.
9. **Feedback.** You may not take any actions which may undermine the integrity of the feedback system, such as: leaving positive feedback for yourself using secondary User IDs or third parties; leaving negative feedback for other users using secondary accounts or third parties (feedback bombing); or leaving negative feedback if a user fails to perform some action that is outside the scope of the auction (feedback extortion). If you earn a net feedback rating of -4 (minus four), your membership will automatically suspend, and you will be unable to list or bid.

Because feedback ratings are not designed for any purpose other than for facilitating trading between eBay users, we may suspend or terminate your account if you choose to market or promote your eBay feedback rating in any venue other than eBay.

10. **Breach.** We may immediately issue a warning, temporarily suspend, indefinitely suspend or terminate your membership, any of your current auctions, and any other information you place on the site if you breach this Agreement or if we are unable to verify or authenticate any information you provide to us.
11. **Privacy.** Our then-current privacy policies, available at <http://pages.ebay.com/help/community/png-priv.html>, are incorporated herein by reference.
12. **No Warranty.** WE AND OUR SUPPLIERS PROVIDE THE EBAY WEB SITE AND OUR SERVICES "AS IS" AND WITHOUT ANY WARRANTY OR CONDITION, EXPRESS OR IMPLIED. WE AND OUR SUPPLIERS SPECIFICALLY DISCLAIM THE IMPLIED WARRANTIES OF TITLE, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. Some states do not allow the disclaimer of implied warranties, so the foregoing disclaimer may not apply to you. This warranty gives you specific legal rights and you may also have other legal rights which vary from state to state.
13. **Limit of Liability.** IN NO EVENT SHALL WE OR OUR SUPPLIERS BE LIABLE FOR LOST PROFITS OR ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES (HOWEVER ARISING, INCLUDING NEGLIGENCE) ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT.

OUR LIABILITY, AND THE LIABILITY OF OUR SUPPLIERS, TO YOU OR ANY THIRD PARTIES IN ANY CIRCUMSTANCE IS LIMITED TO THE GREATER OF (A) THE AMOUNT OF FEES YOU PAY TO US IN THE 12 MONTHS PRIOR TO

THE ACTION GIVING RISE TO LIABILITY, AND (B) \$100. Some states do not allow the limitation of liability, so the foregoing limitation may not apply to you.

14. **General Compliance with Laws.** You shall comply with all applicable laws, statutes, ordinances and regulations regarding your use of our service and your bidding on, listing, purchase and sale of items.
15. **No Agency.** You and eBay are independent contractors, and no agency, partnership, joint venture, employee-employer or franchiser-franchisee relationship is intended or created by this Agreement.
16. **Notices.** Except as explicitly stated otherwise, any notices shall be given by email to agree-questions@ebay.com (in the case of eBay) or to the email address you provide to eBay during the registration process (in your case), or such other address as the party shall specify. Notice shall be deemed given 24 hours after email is sent, unless the sending party is notified that the email address is invalid. Alternatively, we may give you notice by certified mail, postage prepaid and return receipt requested, to the address provided to eBay during the registration process. In such case, notice shall be deemed given 3 days after the date of mailing.
17. **Arbitration.** Any controversy or claim arising out of or relating to this Agreement shall be settled by binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. Any such controversy or claim shall be arbitrated on an individual basis, and shall not be consolidated in any arbitration with any claim or controversy of any other party. The arbitration shall be conducted in San Jose, California, and judgment on the arbitration award may be entered into any court having jurisdiction thereof. Either you or eBay may seek any interim or preliminary relief from a court of competent jurisdiction in San Jose, California necessary to protect the rights or property of you or eBay pending the completion of arbitration.
18. **General.** This Agreement shall be governed in all respects by the laws of the State of California as such laws are applied to agreements entered into and to be performed entirely within California between California residents. We do not guarantee continuous, uninterrupted or secure access to our services, and operation of our site may be interfered with by numerous factors outside of our control. If any provision of this Agreement is held to be invalid or unenforceable, such provision shall be struck and the remaining provisions shall be enforced. Headings are for reference purposes only and in no way define, limit, construe or describe the scope or extent of such section. Our failure to act with respect to a breach by you or others does not waive our right to act with respect to subsequent or similar breaches. This Agreement sets forth the entire understanding and agreement between us with respect to the subject matter hereof.
19. **Disclosures.** The services hereunder are offered by eBay, Inc., located at 2005 Hamilton Ave., Suite 350, San Jose, CA 95125. If you are a California resident, you may have this same information emailed to you by sending a letter to the foregoing address with your email address and a request for this information. Fees for our services are described at <http://pages.ebay.com/help/sellerguide/selling-fees.html>.

Parental control protections (such as computer hardware, software, or filtering services) are commercially available that may assist you in limiting access to material that is harmful to minors. If you are interested in learning more about these protections, information is available at

<http://www.worldvillage.com/wv/school/html/control.htm> or other analogous sites providing information on such protections.

The Complaint Assistance Unit of the Division of Consumer Services of the Department of Consumer Affairs may be contacted in writing at 400 R Street, Sacramento, CA 95814, or by telephone at (800) 952-5210.

Exhibit 11 Example of Margins on a Low-priced vs. High-priced Item

	White Furby Toy	Grandfather Clock
gross merch sales	\$40	\$500
Revenues	\$2.56 = 100%	\$16.00 = 100%
cost of sales	.36 = 14%	1.79 = 11%
sales/marketing	1.02 = 40%	1.43 = 9%
R&D	.23 = 9%	.23 = 1%
G&A	.31 = 12%	.58 = 4%
Operating profit	\$.64 = 25%	\$11.97 = 75%

Assumes:

- Revenue % of GMS is 6.4%, 3.2%, respectively;
- 5x increase in cost of sales to assist the trade for the \$500 item

Source: eBay, Inc