UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2018

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ______ to ______

Commission File Number 001-36911

ETSY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-4898921**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
117 Adams Street, Brooklyn, NY	**11201**
(Address of principal executive offices)	**(Zip code)**

(718) 880-3660

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of common stock outstanding as of November 2, 2018 was 120,460,043 .

Etsy, Inc.
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Unless the context otherwise requires, we use the terms "Etsy," the "Company," "we," "us" and "our" in this Quarterly Report on Form 10-Q , (" Quarterly Report"), to refer to Etsy, Inc. and, where appropriate, our consolidated subsidiaries.

See " Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Operating and Financial Metrics " for the definitions of the following terms used in this Quarterly Report: "active buyer," "active seller," "Adjusted EBITDA," "GMS," "international GMS," and "mobile GMS."

Etsy has used, and intends to continue using, its investor relations website and the Etsy News Blog (blog.etsy.com/news) to disclose material non-public information and to comply with its disclosure obligations under Regulation FD. Accordingly, you should monitor our investor relations website and the Etsy News Blog in addition to following our press releases, SEC filings and public conference calls and webcasts.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include information relating to our anticipated international growth, the timing of product launches and our cloud migration, the impact of our four key initiatives, pricing model, marketing and product investments and cloud migration on future GMS and revenue growth, and our anticipated expenses and their impact on our future financial performance. Forward-looking statements include all statements that are not historical facts. In some cases, forward-looking statements can be identified by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "seeks," "should," "will," "would" or similar expressions and the negatives of those terms.

Forward-looking statements are not guarantees of performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Those risks include those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report. Given these uncertainties, you should read this Quarterly Report in its entirety and not place undue reliance on any forward-looking statements in this Quarterly Report.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report and, although we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

Moreover, we operate in a competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements made in this Quarterly Report. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Forward-looking statements represent our beliefs and assumptions only as of the date of this Quarterly Report. We disclaim any obligation to update forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited).

Etsy, Inc.

Consolidated Balance Sheets (Unaudited)

(In thousands except share and per share amounts)

	As of September 30, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 362,727	$ 315,442
Short-term investments	221,409	25,108
Accounts receivable, net of allowance for doubtful accounts of $4,641 and $2,687 as of September 30, 2018 and December 31, 2017, respectively	36,385	33,677
Prepaid and other current assets	23,958	20,379
Funds receivable and seller accounts	63,470	44,658
Total current assets	707,949	439,264
Restricted cash	5,341	5,341
Property and equipment, net of accumulated depreciation and amortization of $80,248 and $66,226 as of September 30, 2018 and December 31, 2017, respectively	119,243	117,617
Goodwill	37,802	38,541
Intangible assets, net of accumulated amortization	36,360	4,100
Other assets	673	720
Total assets	$ 907,368	$ 605,583
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,130	$ 13,622
Accrued expenses	37,191	28,743
Capital lease obligations—current	4,284	5,798
Funds payable and amounts due to sellers	63,470	44,658
Deferred revenue	7,180	6,262
Other current liabilities	2,676	3,394
Total current liabilities	128,931	102,477
Capital lease obligations—net of current portion	2,791	4,115
Deferred tax liabilities	30,851	23,786
Facility financing obligation	60,008	60,049
Long-term debt, net	272,790	—
Other liabilities	17,378	18,262
Total liabilities	512,749	208,689
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock ($0.001 par value, 1,400,000,000 shares authorized as of September 30, 2018 and December 31, 2017; 120,244,674 and 121,769,238 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)	120	122
Preferred stock ($0.001 par value, 25,000,000 shares authorized as of September 30, 2018 and December 31, 2017)	—	—
Additional paid-in capital	551,293	499,441
Accumulated deficit	(149,707)	(96,290)
Accumulated other comprehensive loss	(7,087)	(6,379)
Total stockholders' equity	394,619	396,894
Total liabilities and stockholders' equity	$ 907,368	$ 605,583

The accompanying notes are an integral part of these Consolidated Financial Statements

Etsy, Inc.

Consolidated Statements of Operations (Unaudited)

(In thousands except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$ 150,366	$ 106,380	$ 403,665	$ 304,963
Cost of revenue	46,947	36,383	133,651	106,766
Gross profit	103,419	69,997	270,014	198,197
Operating expenses:				
Marketing	39,516	23,520	94,651	74,495
Product development	24,418	16,958	68,707	56,828
General and administrative	20,748	22,094	61,359	73,268
Total operating expenses	84,682	62,572	224,717	204,591
Income (loss) from operations	18,737	7,425	45,297	(6,394)
Other (expense) income:				
Interest expense	(6,135)	(2,908)	(16,024)	(8,195)
Interest and other income	2,367	654	5,902	1,636
Foreign exchange (loss) gain	(373)	8,069	(2,973)	26,952
Total other (expense) income	(4,141)	5,815	(13,095)	20,393
Income before income taxes	14,596	13,240	32,202	13,999
Benefit for income taxes	5,298	12,562	4,038	23,051
Net income	$ 19,894	$ 25,802	$ 36,240	$ 37,050
Net income per share attributable to common stockholders:				
Basic	$ 0.17	$ 0.22	$ 0.30	$ 0.32
Diluted	$ 0.15	$ 0.21	$ 0.29	$ 0.31
Weighted-average common shares outstanding:				
Basic	119,870,711	119,592,191	120,469,066	117,387,714
Diluted	129,086,137	123,224,559	126,497,281	121,346,921

The accompanying notes are an integral part of these Consolidated Financial Statements

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Etsy, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net inco me	$ 19,894	$ 25,802	$ 36,240	$ 37,050
Other comprehensive loss:				
Cumulative translation adjustment	(544)	(6,267)	(696)	(22,603)
Unrealized gains (losses) on marketable securities, n et of tax	5	40	(12)	29
Total other comprehensive loss	(539)	(6,227)	(708)	(22,574)
Comprehensive inco me	$ 19,355	$ 19,575	$ 35,532	$ 14,476

The accompanying notes are an integral part of these Consolidated Financial Statements

Etsy, Inc.

Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

(In thousands except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance as of December 31, 2017	121,769,238	$ 122	$ 499,441	$ (96,290)	$ (6,379)	$ 396,894
Stock-based compensation	—	—	23,288	—	—	23,288
Exercise of vested options	1,354,886	1	15,572	—	—	15,573
Issuance of convertible senior notes, net of issuance costs and taxes	—	—	54,214	—	—	54,214
Purchase of capped call, net of taxes	—	—	(26,243)	—	—	(26,243)
Vesting of restricted stock units, net of shares withheld	650,884	1	(17,137)	—	—	(17,136)
Stock repurchase	(3,530,334)	(4)	—	(89,657)	—	(89,661)
Stock-based compensation—acquisitions	—	—	2,158	—	—	2,158
Other comprehensive loss	—	—	—	—	(708)	(708)
Net inco me	—	—	—	36,240	—	36,240
Balance as of September 30, 2018	120,244,674	$ 120	$ 551,293	$ (149,707)	$ (7,087)	$ 394,619

The accompanying notes are an integral part of these Consolidated Financial Statements

Etsy, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities		
Net inco me	$ 36,240	$ 37,050
Adjustments to reconcile net inco me to net cas h provided by operating activitie s:		
Stock-based compensation expense	21,829	17,389
Stock-based compensation expense—acquisitions	2,158	3,179
Depreciation and amortization expense	19,116	20,620
Bad debt expense	3,617	2,059
Foreign exchange loss (gain)	2,973	(26,952)
Amortization of debt issuance costs	831	164
Non-cash interest expense	7,632	6,752
Interest on marketable securities	(1,575)	384
Loss on disposal of assets	26	395
Deferred income taxes	(4,038)	(23,051)
Changes in operating assets and liabilities:		
Accounts receivable	(6,631)	(2,139)
Funds receivable and seller accounts	(19,398)	(14,202)
Prepaid expenses and other current assets	1,155	(1,715)
Other assets	32	(48)
Accounts payable	(80)	(2,574)
Accrued and other current liabilities	8,178	(66)
Funds payable and amounts due to sellers	19,398	14,202
Deferred revenue	991	512
Other liabilities	4,678	363
Net cash provided by operating activities	97,132	32,322
Cash flows from investing activities		
Cash paid for asset acquisition	(35,323)	—
Purchases of property and equipment	(442)	(3,872)
Development of internal-use software	(13,674)	(8,042)
Purchases of marketable securities	(359,182)	(46,808)
Sales of marketable securities	164,443	96,540
Net cash (used i n) provided by invest ing activities	(244,178)	37,818
Cash flows from financing activities		
Repurchase of stock for tax on RSU vesting	(17,136)	(4,897)
Repurchase of stock	(89,661)	—
Proceeds from exercise of stock options	15,573	21,936
Proceeds from issuance of convertible senior notes	345,000	—
Payment of debt issuance costs	(9,962)	—
Purchase of capped call	(34,224)	—
Payments on capital lease obligations	(4,748)	(5,838)
Payments on facility financing obligation	(7,817)	(4,330)
Net cash provided by financing activities	197,025	6,871
Effect of exchange rate changes on cash	(2,694)	1,685
Net increase in cash, c ash equivalents, and restrict ed cash	47,285	78,696
Cash, cash equivalents, and restricted cash at beginning of period	320,783	186,933
Cash, cash equivalents, and restricted cash at end of period	$ 368,068	$ 265,629

Etsy, Inc.

Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Supplemental non-cash disclosures		
Equipment acquired under capital lease obligations	$ 1,909	$ 5,422
Stock-based compensation capitalized in development of capitalized software	$ 1,459	$ 672
Additions to development of internal-use software and property and equipment included in accounts payable and accrued expenses	$ 1,354	$ 118

The accompanying notes are an integral part of these Consolidated Financial Statements

Etsy, Inc.

Notes to Consolidated Financial Statements

Note 1—Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Etsy, Inc. (the "Company" or "Etsy") is the global marketplace for unique and creative goods. The Company generates revenue primarily from transaction and listing fees, Etsy Payments fees, Promoted Listing fees, Etsy Shipping Label sales, Pattern by Etsy fees, Etsy Plus subscription fees, and Targeted Offers fees.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Etsy and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain items in the prior years' Consolidated Financial Statements have been reclassified to conform to the current year presentation reflected in the Consolidated Financial Statements. Specifically, the Company reclassified $35.4 million and $98.6 million previously included in Services revenue to Marketplace revenue (see " Note 2—Revenue ") for the three and nine months ended September 30, 2017 , respectively, to conform to the current year presentation in connection with the adoption of Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* .

Additionally, the Company reclassified $5.3 million on the Consolidated Statement of Cash Flows in the nine months ended September 30, 2017 to include restricted cash in the beginning and ending cash, cash equivalents, and restricted cash balances to conform to the current year presentation upon adoption of Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows: Restricted Cash.*

The Company also reclassified $23.1 million previously included in changes in prepaid expenses and other current assets and other liabilities to deferred income taxes on the Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 to conform to the current year presentation.

Correction of Errors

During the three months ended June 30, 2018, the Company recorded $2.8 million of revenue as correction of an error related to the years ended December 31, 2017 and 2016. The Company has concluded that the error and its correction were not material to the Consolidated Financial Statements for any of the periods impacted nor are they expected to be material for the estimated 2018 results.

Unaudited Interim Financial Information

The accompanying Consolidated Balance Sheet as of September 30, 2018 , the Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 , the Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 and the Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2018 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual Consolidated Financial Statements except for reclassifications described above and new accounting standards adopted as of January 1, 2018 as disclosed below, and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position as of September 30, 2018 , results of operations for the three and nine months ended September 30, 2018 and 2017 and cash flows for the nine months ended September 30, 2018 and 2017 . The results for these interim periods are not necessarily indicative of the results to be anticipated for the full annual period or any future period. The financial data and the other information disclosed in these Notes to the Consolidated Financial Statements related to these three and nine month periods are unaudited. These unaudited interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2018 (the "Annual Report").

Etsy, Inc.

Notes to Consolidated Financial Statements

During the first quarter of 2018, the Company adopted the accounting principles outlined within ASU 2014-09, *Revenue from Contracts with Customers* , and ASU 2016-18, *Statement of Cash Flows: Restricted Cash,* each as described below . There have been no additional material changes in the Company's significant accounting policies from those that were disclosed in the Annual Report.

Use of Estimates

The preparation of the Company's Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting estimates that require management's most difficult and subjective judgments include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations and stand-alone selling price for use in allocating the subscription price; income taxes; website development costs and internal-use software; purchase price allocations for business combinations; valuation of goodwill and intangible assets; leases; stock-based compensation; restructuring and other exit costs (income); and fair value of financial instruments. The Company evaluates its estimates and judgments on an ongoing basis and revises them when necessary. Actual results may differ from the original or revised estimates.

Cash, Cash Equivalents, and Short-term Investments

The Company considers all investments with an original maturity of three months or less at time of purchase to be cash equivalents. Cash restricted by third parties is not considered cash and cash equivalents. Short-term investments, consisting primarily of commercial paper, corporate bonds, and U.S. Government and agency securities with original maturities of greater than three months but less than one year when purchased, are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated income tax provisions or benefits.

The following table provides cash, cash equivalents, and short-term investments within the Consolidated Balance Sheets as of the dates indicated (in thousands):

	As of September 30, 2018	As of December 31, 2017
Cash and cash equivalents	$ 362,727	$ 315,442
Short-term investments	221,409	25,108
Total cash, cash equivalents, and short-term investments	$ 584,136	$ 340,550

Revenue Recognition

The Company's revenue is diversified; generated from a mix of marketplace activities and other optional services to help Etsy sellers start, manage, and scale their business. Revenues are recognized as the Company transfers control of promised goods or services to Etsy sellers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company evaluates whether it is appropriate to recognize revenue on a gross or net basis based upon its evaluation of whether the Company obtains control of the specified goods or services by considering if it is primarily responsible for fulfillment of the promise, has inventory risk and has the latitude in establishing pricing and selecting suppliers, among other factors. Based on its evaluation of these factors, revenue is recorded either gross or net of costs associated with the transaction. Sales and usage-based taxes are excluded from revenues.

See " Note 2—Revenue " for additional information regarding revenue recognition.

Income Taxes

The Company's income tax (provision) benefit for interim periods is determined using an estimate of its annual effective tax rate adjusted for discrete items, if any, for relevant interim periods. The Company updates its estimate of the annual effective tax rate each quarter and makes cumulative adjustments if its estimated annual tax rate changes.

Etsy, Inc.

Notes to Consolidated Financial Statements

The Company's quarterly tax provision and quarterly estimate of its annual effective tax rate are subject to significant variations due to several factors, including variability in predicting its pretax and taxable income and the mix of jurisdictions to which those relate, changes of expenses or losses for which tax benefits are not recognized, recording of excess tax benefits related to stock-based compensation and changes in the laws, regulations and administrative practices of the jurisdictions in which the Company operates.

Net Income Per Share

Basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period using the two-class method. Diluted net income per share is computed by dividing net income for the period by the weighted-average number of shares of common stock and potentially dilutive common stock outstanding during the period. Net income in the diluted net income per share calculation is adjusted for income or loss from fair value adjustments on instruments accounted for as liabilities, but which may be settled in shares. The dilutive effect of outstanding options and stock-based compensation awards is reflected in diluted net income per share by application of the treasury stock method. Since the Company expects to settle in cash the principal outstanding under the 0% Convertible Senior Notes due 2023 the Company issued in March 2018 (the "Notes," see " Note 3—Convertible Debt "), it uses the treasury stock method when calculating the potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the conversion price of $36.27 per share.

The calculation of diluted net income per share excludes all anti-dilutive common shares. For periods in which the Company has reported net losses, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, because dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases* , and additional changes, modifications, clarifications or interpretations related to this guidance thereafter, which require a reporting entity to recognize right-of-use assets and lease liabilities on the balance sheet for operating leases to increase transparency and comparability. The new guidance is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company expects to adopt this guidance on a prospective basis as of January 1, 2019, utilizing transition guidance introduced in ASU 2018-11, *Leases: Targeted Improvement* s. Upon adoption of this standard, the Company expects to recognize, on a discounted basis, its minimum commitments under noncancelable operating leases on the Consolidated Balance Sheets resulting in the recording of right-of-use assets and lease obligations. The Company is currently evaluating whether there are any additional impacts this guidance will have on its Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* , which requires a reporting entity to estimate credit losses on certain types of financial instruments, and present assets held at amortized cost and available-for-sale debt securities at the amount expected to be collected. The new guidance is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its Consolidated Financial Statements.

In July 2018, FASB issued ASU 2018-09, *Codification Improvements* , which clarifies, corrects and makes minor improvements across multiple topics in the codification. The transition and effective dates are based on the facts and circumstances of each amendment, with some amendments becoming effective upon issuance of the update, and others becoming effective for annual periods beginning after December 15, 2018. The amendments that were effective upon issuance of the update did not have an impact on the Company's Consolidated Financial Statements. The Company is currently evaluating the impact of the adoption of the other amendments on its Consolidated Financial Statements.

Etsy, Inc.

Notes to Consolidated Financial Statements

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its Consolidated Financial Statements.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* , and additional changes, modifications, clarifications or interpretations related to this guidance thereafter, which replaces existing revenue recognition guidance. The new guidance was effective for the annual and interim periods beginning after December 15, 2017. Among other things, the updated guidance requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the requirements of the new guidance as of January 1, 2018, utilizing the full retrospective method of transition. In connection with the adoption, the company reclassified Etsy Payments revenue from Services revenue to Marketplace revenue in the Consolidated Statements of Operations. Aside from this presentation reclassification, adoption of the new guidance did not result in changes to the prior year or current year Consolidated Financial Statements. See " Note 2—Revenue " for additional information regarding revenue recognition.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* , which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The new guidance is effective for the annual and interim periods beginning after December 15, 2017. The Company adopted this standard in the first quarter of 2018 utilizing the full retrospective method of transition. As a result of this guidance, the Company reclassified $5.3 million on the Consolidated Statement of Cash Flows in the nine months ended September 30, 2018 and 2017 to include restricted cash in the beginning and ending cash, cash equivalents, and restricted cash balances.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statement of Cash Flows (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Beginning balance:		
Cash and cash equivalents	$ 315,442	$ 181,592
Restricted cash	5,341	5,341
Total cash, cash equivalents, and restricted cash	$ 320,783	$ 186,933
Ending balance:		
Cash and cash equivalents	$ 362,727	$ 260,288
Restricted cash	5,341	5,341
Total cash, cash equivalents, and restricted cash	$ 368,068	$ 265,629

The balances included in restricted cash represent amounts held as collateral associated with the lease of the Company's Brooklyn, New York headquarters. This standard had no other impact to the Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* , which expands the scope of ASC Topic 718, *Compensation—Stock Compensation* , to include share-based payment transactions for acquiring goods and services from non-employees. The new guidance is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company adopted this standard in the third quarter of 2018 noting that the adoption of the standard had no material impact on its Consolidated Financial Statements.

Etsy, Inc.

Notes to Consolidated Financial Statements

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* which adds, modifies and removes various disclosure requirements for fair value measurements. The new guidance is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted. The Company adopted this standard in the third quarter of 2018 noting that the adoption of the standard had no impact on its fair value measurement disclosures.

Note 2—Revenue

The following table summarizes revenue by type of service for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Marketplace revenue (1)	$ 110,927	$ 77,808	$ 290,200	$ 223,815
Services revenue	38,194	27,976	110,306	77,560
Other revenue	1,245	596	3,159	3,588
Revenue	$ 150,366	$ 106,380	$ 403,665	$ 304,963

(1) Etsy Payments revenue for the three and nine months ended September 30, 2018 has been classified and presented within Marketplace revenue. Comparative periods have been reclassified to conform to current period presentation.

Marketplace Revenue : As members of the Etsy marketplace, Etsy sellers receive the benefit of marketplace activities, including listing items for sale, completing sales transactions, and payments processing, which represents a single stand-ready performance obligation. Etsy sellers pay a fixed listing fee of $0.20 for each item listed on Etsy.com for a period of four months or, if earlier, until a sale occurs. Variable fees include the 5% transaction fee that an Etsy seller pays for each completed transaction, inclusive of shipping fees charged, and Etsy Payments fees for processing payments, including foreign currency payments. Prior to July 16, 2018 , the transaction fee was 3.5% of each completed transaction, exclusive of shipping fees charged. Etsy Payments processing fees vary between 3 - 4% of an item's total sale price, including shipping, plus a flat fee per order, depending on the country in which a seller's bank account is located. When a foreign currency payment is processed, an additional 2.5 - 5% transaction fee is applied.

The listing fee is recognized ratably over a four -month listing period, unless the item is sold or the seller re-lists it, at which time any remaining listing fee is recognized. The transaction fee and Etsy Payments fees are recognized when the corresponding transaction is consummated. Listing fees are nonrefundable while transaction fees and Etsy Payments fees are recorded net of refunds.

Services revenue : Services revenue is derived from optional services offered to Etsy sellers, which include Promoted Listings, Etsy Shipping Labels, Pattern by Etsy, Etsy Plus, and Targeted Offers. Each service below represents an individual obligation that the Company must perform when an Etsy seller chooses to use the service.

- Revenue from Promoted Listings, the Company's on-site advertising service, consists of cost-per-click fees an Etsy seller pays for prominent placement of the seller's listings in search results in the Company's marketplace. Promoted Listings fees are based on an auction system, which utilizes the budget that each Etsy seller sets when using Promoted Listings to determine the cost-per-click fee. Promoted Listing fees are nonrefundable and are charged to a seller's Etsy bill when the Promoted Listing is clicked; at which time revenue is recognized.

- Revenue from Etsy Shipping Labels consists of fees an Etsy seller pays the Company when the seller purchases shipping labels through our platform, net of the cost the Company incurs in purchasing those shipping labels. The Company provides sellers access to purchase shipping labels from the United States Postal Service, FedEx, and Canada Post at discounted pricing due to the volume of purchases through its platform. The Company recognizes Etsy Shipping Label revenue when an Etsy seller purchases a shipping label. The Company recognizes Etsy Shipping Label revenue on a net basis as the Company is an agent in this arrangement and does not take ownership of shipping labels prior to transferring the labels to the Etsy Seller. Etsy Shipping Label revenue is recorded net of refunds.

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- Revenue from Pattern by Etsy consists of monthly subscription fees an Etsy seller pays to use the Company's custom website services. The Company recognizes revenue from Pattern ratably over the term of the subscription. The Pattern subscription fee is $15 per month and is nonrefundable.
- Revenue from Etsy Plus consists of monthly subscription fees an Etsy seller pays for enhanced tools and credits for use on the Company's platform. The Etsy Plus subscription fee is $10 per month and is nonrefundable. Each feature represents its own distinct performance obligation. The Company allocates subscription revenue based on the relative actual or estimated stand-alone selling price of the features included in the Etsy Plus offering. Enhanced tools include advanced shop customization options, targeted restock notifications, discounts on branded packaging and promotional materials, and free or discounted custom web addresses, all of which are recognized ratably over the 30 -day subscription period. Additionally, the subscription includes $5 of Promoted Listing credits and 15 free listing credits per month. The allocated value of Promoted Listing credits is recognized when the Promoted Listing is clicked, or when the 30-day subscription period expires. The allocated value of listing credits is deferred until the option is used, and once used, allocated over the four-month listing period. Any unused listing credits are recognized when the 30-day subscription period expires.
- Revenue from Targeted Offers consists of fees an Etsy seller pays the Company to send email notifications with offer discounts and coupons to buyers who have favorited items or added items to their cart. A nonrefundable fee of $0.10 per email is charged to a seller's Etsy bill when the email is sent; at which time the revenue is recognized.

Other revenue : Other revenue typically includes revenue generated from commercial partnerships, which are recognized as the customer in each contract consumes the benefit of the service Etsy provides in each arrangement.

Payment terms

Etsy sellers receive a bill electronically on the first day of each month for the previous month's charges, including all listing fees, transactions fees, Promoted Listing fees, Etsy Shipping Labels fees, Pattern fees, Etsy Plus fees, and Targeted Offers fees. Payment is due by the 15th of every month.

Etsy Payments fees are deducted from the funds credited to the seller's shop payment account prior to settlement of those funds to the seller's bank account.

Contract balances

Deferred revenues

The Company records deferred revenues when cash payments are received or due in advance of the completion of the listing or subscription period, which represents the value of the Company's unsatisfied performance obligations. Deferred listing revenue is recognized ratably over the remainder of the four -month listing period, unless the item is sold or the seller re-lists it, at which time any remaining listing fee is recognized. Deferred Etsy Plus subscription revenues related to the enhanced features noted above are recognized ratably over the 30-day subscription period. Credits for Promoted Listings are recognized when used, or when the 30-day subscription period expires. Credits for listing fees are recognized over the four-month listing period when used, and any unused credits are recognized when the 30-day subscription period expires. The amount of revenue recognized in the nine months ended September 30, 2018 that was included in the deferred balance at the beginning of the period was $6.3 million .

Significant judgments

Judgment is required to assess the nature of the services that the Company promises to its customers and the timing of satisfaction of those promised services.

For services that are refundable, the Company accounts for the right of return as a refund liability and reduction of revenue recognized in the amount of refunds that are expected to be issued. Refunds are estimated monthly, are based on historical refund patterns, and are updated at the end of each reporting period as additional information becomes available.

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Note 3—Convertible Debt

In March 2018 , the Company issued $345.0 million aggregate principal amount of 0% Convertible Senior Notes due 2023 (the "Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The net proceeds from the sale of the Notes were $335.0 million after deducting the initial purchasers' discount and offering expenses.

The Notes are convertible based upon an initial conversion rate of 27.5691 shares of the Company's common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $36.27 per share). The conversion rate will be subject to adjustment upon the occurrence of certain specified events, including certain distributions and dividends to all or substantially all of the holders of the Company's common stock. The Company will settle any conversions of the Notes in cash, shares of the Company's common stock or a combination thereof, with the form of consideration determined at the Company's election.

The Notes will mature on March 1, 2023 , unless earlier converted or repurchased. Prior to the close of business on the business day immediately preceding November 1, 2022 , holders may convert all or a portion of their Notes only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the 5 business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) with respect to any or all of the Notes called for redemption by the Company prior to the close of business on the business day immediately preceding November 1, 2022 , holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day prior to the redemption date, even if the Notes are not otherwise convertible at such time; (4) upon the occurrence of specified corporate events. On and after November 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances.

If a fundamental change occurs prior to the maturity date, holders may require the Company to repurchase all or a portion of their Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased. Holders of Notes who convert their Notes in connection with a notice of a redemption or a make-whole fundamental change may be entitled to a premium in the form of an increase in the conversion rate of the Notes. During the third quarter of 2018, the closing price of the Company's common stock exceeded 130% of the applicable conversion price of the Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of the Notes may convert their Notes during the fourth quarter of 2018. As of September 30, 2018 , the Company had not received any conversion notices, and, as such, the Notes are not currently redeemable for cash and are therefore classified as long-term debt.

The Notes are general unsecured obligations of the Company. The Notes rank senior in right of payment to all of the Company's future indebtedness that is expressly subordinated in right of payment to the Notes; rank equal in right of payment with all of our liabilities that are not so subordinated; are effectively junior to any of the Company's secured indebtedness; and are structurally junior to all indebtedness and liabilities (including trade payables) of the Company's subsidiaries.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, representing the conversion option, which does not meet the criteria for separate accounting as a derivative as it is indexed to the Company's own stock, was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the liability component represents the debt discount, which is recorded as a direct deduction from the related debt liability in the Consolidated Balance Sheet and accreted over the period from the date of issuance to the contractual maturity date, resulting in the recognition of non-cash interest expense. The equity component of the Notes of approximately $72.8 million is included in additional paid-in capital in the Consolidated Balance Sheet and is not remeasured as long as it continues to meet the conditions for equity classification. Transaction costs were allocated to the liability and equity components in the same proportion as the allocation of the proceeds. Transaction costs attributable to the liability

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component were recorded as a direct deduction from the related debt liability in the Consolidated Balance Sheet and are amortized to interest expense using the effective interest method over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity component in stockholders' equity.

Non-cash interest expense related to the Notes for the three and nine months ended September 30, 2018 was $3.7 million and $8.5 million , respectively. Total unamortized debt issuance costs were $7.0 million as of September 30, 2018 .

The estimated fair value of the Notes was $278.7 million as of September 30, 2018 . The estimated fair value of the Notes was determined through consideration of quoted market prices for similar instruments. The fair value is classified as Level 2, as defined in " Note 7—Fair Value Measurements ."

Capped Call Transactions

The Company used $34.2 million of the net proceeds from the Notes offering to enter into separate capped call transactions ("Capped Call Transactions") with the initial purchasers and/or their respective affiliates. The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount of the Notes upon conversion of the Notes in the event that the market price per share of the Company's common stock is greater than the strike price of the Capped Call Transactions with such reduction and/or offset subject to a cap. The Capped Call Transactions have an initial cap price of $52.76 per share of the Company's common stock, which represents a premium of 100% over the last reported sale price of the Company's common stock on March 8, 2018 , and is subject to certain adjustments under the terms of the Capped Call Transactions. Collectively, the Capped Call Transactions cover, initially, the number of shares of the Company's common stock underlying the Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Notes.

The Capped Call Transactions do not meet the criteria for separate accounting as a derivative as they are indexed to the Company's stock. The premiums paid for the Capped Call Transactions have been included as a net reduction to additional paid-in capital within stockholders' equity.

Note 4—Stock-based Compensation

During the three and nine months ended September 30, 2018 , the Company granted stock options and restricted stock units ("RSUs") under its 2015 Equity Incentive Plan ("2015 Plan") and, pursuant to the evergreen increase provision of the 2015 Plan, the Board of Directors approved an increase of 6,088,461 shares to the total number of shares available for issuance under the 2015 Plan effective as of January 2, 2018. At September 30, 2018 , 29,436,374 shares were authorized under the 2015 Plan and 18,553,418 shares were available for future grant.

The fair value of options granted in the periods presented below using the Black-Scholes pricing model has been based on the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Volatility	47.8%	42.4% - 44.1%	38.6% - 47.8%	41.7% - 44.2%
Risk-free interest rate	2.8%	1.9% - 2.1%	2.6% - 2.9%	1.9% - 2.2%
Expected term (in years)	6.1	5.5 - 6.3	5.5 - 6.3	5.5 - 6.3
Dividend rate	—%	—%	—%	—%

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The following table summarizes the activity for the Company's options during the nine months ended September 30, 2018 (in thousands except share and per share amounts):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	7,947,939	$ 11.02		
Granted	768,263	28.86		
Exercised	(1,354,886)	11.49		
Forfeited/Canceled	(245,909)	15.40		
Outstanding at September 30, 2018	7,115,407	12.70	8.15	$ 275,193
Total exercisable at September 30, 2018	2,842,638		7.34	116,034

The following table summarizes the weighted-average grant date fair value of options granted, intrinsic value of options exercised and fair value of awards vested during the three and nine months ended September 30, 2018 and 2017 (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted-average grant date fair value of options granted	$ 25.00	$ 6.50	$ 15.53	$ 4.83
Intrinsic value of options exercised	13,493	31,361	24,690	44,227
Fair value of awards vested	8,783	5,943	23,182	16,428

The total unrecognized compensation expense at September 30, 2018 related to the Company's options was $27.7 million , which will be recognized over an estimated weighted-average amortization period of 2.52 years.

The following table summarizes the activity for the Company's unvested RSUs during the nine months ended September 30, 2018 :

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2017	3,074,247	$ 11.98
Granted	2,281,143	26.13
Vested	(1,148,993)	11.92
Forfeited/Canceled	(414,966)	17.16
Unvested at September 30, 2018	3,791,431	20.97

The total unrecognized compensation expense at September 30, 2018 related to the Company's unvested RSUs was $72.9 million , which will be recognized over an estimated weighted-average amortization period of 3.10 years.

Total stock-based compensation expense included in the Consolidated Statements of Operations for the periods presented below is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$ 894	$ 469	$ 2,367	$ 1,231
Marketing	642	447	1,819	1,419
Product development	4,697	2,180	11,361	6,253
General and administrative	2,683	4,425	8,440	11,665
Total stock-based compensation expense	$ 8,916	$ 7,521	$ 23,987	$ 20,568

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Total stock-based compensation expense in both the three months ended September 30, 2018 and 2017 includes $0.7 million in acquisition-related stock-based compensation expense. Total stock-based compensation expense in the nine months ended September 30, 2018 and 2017 includes $2.2 million and $3.2 million in acquisition-related stock-based compensation expense, respectively.

Total stock-based compensation expense in the three and nine months ended September 30, 2017 includes $1.0 million and $2.6 million , respectively, of costs associated with the Actions (as defined below) approved by the Board of Directors during the second quarter of 2017 discussed in " Note 13—Restructuring and Other Exit Costs (Income) ."

During the three and nine months ended September 30, 2018 , the Company incurred non-cash stock-based compensation expense of $1.0 million resulting from the modification of stock options and RSUs in connection with the departure of the Company's Chief Operating Officer ("COO"), effective January 2, 2019 (the "Departure Date"). As per the agreement between the Company and the COO, all unvested options and RSUs granted in 2016 and 2017 will become fully vested on the Departure Date. The Company will recognize a total of $6.2 million expense relating to the modification, of which $5.2 million of expense will be recognized in the fourth quarter of 2018.

Note 5—Stockholders' Equity

In November 2017, the Board of Directors approved a stock repurchase program that enabled the Company to repurchase up to $100 million of its common stock. The program was completed in the second quarter of 2018.

Under the stock repurchase program, the Company was able to purchase shares of its common stock through various means, including open market transactions, privately negotiated transactions, tender offers, or any combination thereof. In addition, open market repurchases of common stock could be made pursuant to trading plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which permitted common stock to be repurchased at a time that the Company might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions.

The following table summarizes the Company's share repurchase activity, excluding shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units (in thousands except share and per share amounts):

	Shares Repurchased	Average Price Paid per Share (1)	Value of Shares Repurchased (1)	Remaining Amount Authorized
Balance as of December 31, 2017	586,231	$ 17.57	$ 10,301	$ 89,699
Repurchases of common stock for the three months ended:				
March 31, 2018	2,807,393	24.43	68,586	(68,586)
June 30, 2018	722,941	29.15	21,113	(21,113)
Balance as of September 30, 2018	4,116,565	$ 24.28	$ 100,000	$ —

(1) Average price paid per share excludes broker commissions. Value of shares repurchased includes broker commissions.

All repurchased shares of common stock have been retired.

Subsequent event

On November 1, 2018, the Board of Directors approved a stock repurchase program that enables the Company to repurchase up to $200 million of its common stock. The program does not have a time limit and may be modified, suspended or terminated at any time by the Board of Directors. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with Etsy's working capital requirements, general business conditions and other factors.

Note 6—Income Taxes

On December 22, 2017, the U.S. government enacted The Tax Cuts and Jobs Act ("The Act") which includes significant changes to the taxation of business entities. These changes include, among others, (1) a permanent reduction to the corporate income tax rate, (2) a partial limitation on the deductibility of business interest expense ("163(j) Interest Limitation"), and (3) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a quasiterritorial system (along with certain rules designed to prevent erosion of the U.S. income tax base).

Effective January 1, 2018, the Company is subject to several provisions of The Act including computations under Global Intangible Low Taxed Income ("GILTI"), Foreign Derived Intangible Income ("FDII"), and the Base Erosion and Anti-Abuse Tax ("BEAT"). For the GILTI and FDII computations, the Company included a reasonable estimate in its annual effective tax rate as of September 30, 2018 . For the BEAT computations, the Company did not record an estimate in its effective tax rate for the three and nine months ended September 30, 2018 because the Company currently estimates that these provisions of The Act will not apply in 2018. The Company will continue to refine the estimates for the computations of the GILTI, FDII, and BEAT rules as it gathers additional information during the year.

The Company also continues to evaluate the impact of the GILTI provisions under The Act which are complex and subject to continuing regulatory interpretation by the IRS. The Company is required to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company has included an estimate of GILTI in its estimated effective tax rate for 2018, and has elected to treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method").

The amount of unrecognized tax benefits included in the Consolidated Balance Sheets increased $1.0 million in the nine months ended September 30, 2018 , from $17.0 million at December 31, 2017 to $18.0 million at September 30, 2018 . The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate is $18.0 million at September 30, 2018 .

Note 7—Fair Value Measurements

The Company has characterized its investments in marketable securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment. Investments recorded in the accompanying Consolidated Balance Sheet are categorized based on the inputs to valuation techniques as follows:

Level 1—These are investments where values are based on unadjusted quoted prices for identical assets in an active market that the Company has the ability to access.

Level 2—These are investments where values are based on quoted market prices in markets that are not active or model derived valuations in which all significant inputs are observable in active markets.

Level 3—These are financial instruments where values are derived from techniques in which one or more significant inputs are unobservable.

The following are the major categories of assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	As of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Commercial paper	$ —	$ 2,994	$ —	$ 2,994
Money market funds	186,583	—	—	186,583
	186,583	2,994	—	189,577
Short-term investments:				
Commercial paper	—	125,976	—	125,976
Corporate bonds	—	40,607	—	40,607
U.S. Government and agency securities	54,826	—	—	54,826
	54,826	166,583	—	221,409
Funds receivable and seller accounts:				
Money market funds	30,433	—	—	30,433
	30,433	—	—	30,433
	$ 271,842	$ 169,577	$ —	$ 441,419

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Commercial paper	$ —	$ 11,290	$ —	$ 11,290
Money market funds	204,867	—	—	204,867
U.S. Government and agency securities	24,989	—	—	24,989
	229,856	11,290	—	241,146
Short-term investments:				
Commercial paper	—	2,998	—	2,998
Corporate bonds	—	12,748	—	12,748
U.S. Government and agency securities	9,362	—	—	9,362
	9,362	15,746	—	25,108
Funds receivable and seller accounts:				
Money market funds	14,144	—	—	14,144
	14,144	—	—	14,144
	$ 253,362	$ 27,036	$ —	$ 280,398

Level 1 instruments include investments in debt securities including money market funds and AA-rated U.S. Government and agency securities, which are valued based on inputs including quotes from broker-dealers or recently executed transactions in the same or similar securities.

Level 2 instruments include investments in debt securities, including fixed-income funds consisting of investments in commercial paper and corporate bonds, which are valued based on quoted market prices in markets that are not active or model derived valuations in which all significant inputs are observable in active markets.

The Company did not have any Level 3 instruments as of September 30, 2018 and December 31, 2017 .

See “ Note 8—Marketable Securities ” for additional information on the Company’s marketable securities measured at fair value.

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Disclosure of Fair Values

Our financial instruments that are not remeasured at fair value include the Notes (see " Note 3—Convertible Debt "). The Company estimates the fair value of the Notes through consideration of quoted market prices of similar instruments, classified as Level 2 as described above. The estimated fair value of the Notes was $278.7 million as of September 30, 2018 . The estimated fair value of the Notes was determined through consideration of quoted market prices for similar instruments.

Note 8—Marketable Securities

Short-term investments and certain cash equivalents consist of investments in debt securities that are available-for-sale. The cost and fair value of available-for-sale securities were as follows as of the dates indicated (in thousands):

	Cost	Gross Unrealized Holding Loss	Gross Unrealized Holding Gain	Fair Value
September 30, 2018				
Cash equivalents:				
Commercial paper	$ 2,994	$ —	$ —	$ 2,994
	2,994	—	—	2,994
Short-term investments:				
Commercial paper	125,976	—	—	125,976
Corporate bonds	40,610	(6)	3	40,607
U.S. Government and agency securities	54,832	(17)	11	54,826
	221,418	(23)	14	221,409
	$ 224,412	$ (23)	$ 14	$ 224,403
December 31, 2017				
Cash equivalents:				
Commercial paper	$ 11,290	$ —	$ —	$ 11,290
U.S. Government and agency securities	24,990	(1)	—	24,989
	36,280	(1)	—	36,279
Short-term investments:				
Commercial paper	2,998	—	—	2,998
Corporate bonds	12,754	(6)	—	12,748
U.S. Government and agency securities	9,352	(1)	11	9,362
	25,104	(7)	11	25,108
	$ 61,384	$ (8)	$ 11	$ 61,387

The Company's investments in marketable securities consist primarily of investments in debt securities, including AA-rated U.S. Government and agency securities and fixed-income funds. When evaluating investments for other-than-temporary impairment, the Company reviews factors such as length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and the Company's ability, and intent to hold the investment for a period of time, which may be sufficient for anticipated recovery in market value. The Company evaluates fair values for each individual security in the investment portfolio.

See " Note 7—Fair Value Measurements " for additional information on the Company's marketable securities measured at fair value.

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Note 9—Intangible Assets

On June 15, 2018, the Company entered into a referral agreement with DaWanda GmbH ("DaWanda"), a privately held Germany-based marketplace for gifts and handmade items. As part of this agreement, DaWanda agreed to encourage its community of buyers and sellers to migrate to the Etsy platform. DaWanda wound down its operations and shut down its site on August 30, 2018. Etsy did not acquire any of DaWanda's assets, liabilities, or employees as part of this agreement. The Company accounted for the agreement as an asset acquisition and the referral agreement intangible asset will be amortized on a straight-line basis over a period of 10 years .

At September 30, 2018 and December 31, 2017 , the gross book value and accumulated amortization of intangible assets were as follows (in thousands):

	As of September 30, 2018			As of December 31, 2017		
	Gross book value	Accumulated amortization	Net book value	Gross book value	Accumulated amortization	Net book value
Patents and developed technology	$ 7,200	$ (4,900)	$ 2,300	$ 7,200	$ (3,100)	$ 4,100
Referral agreement	35,084	(1,024)	34,060	—	—	—
Total intangible assets	$ 42,284	$ (5,924)	$ 36,360	$ 7,200	$ (3,100)	$ 4,100

Amortization expense for the three months ended September 30, 2018 and September 30, 2017 was $1.5 million and $0.6 million , respectively, and $2.8 million for both the nine months ended September 30, 2018 and 2017 . Based on amounts recorded at September 30, 2018 , the Company will recognize intangible asset amortization expense for the three months ending December 31, 2018 and years ending December 31, 2019 , 2020 , 2021 , 2022 and thereafter as follows (in thousands):

2018	$ 1,478
2019	5,208
2020	3,508
2021	3,508
2022	3,508
Thereafter	19,150
Total amortization expense	$ 36,360

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Note 10— Net Income Per Share

The following table presents the calculation of basic and diluted net income per share for periods presented (in thousands except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net inco me	$ 19,894	$ 25,802	$ 36,240	$ 37,050
Net income allocated to participating securities under the two-class method	(10)	(25)	(17)	(37)
Net inco me applicable to common stockholde rs—basic	19,884	25,777	36,223	37,013
Dilutive effect of net income allocated to participating securities under the two-class method	10	25	17	37
Change in fair value of liability classified restricted stock	—	—	—	771
Net income attributable to common stockholders—diluted	$ 19,894	$ 25,802	$ 36,240	$ 37,821
Denominator:				
Weighted-average common shares outstanding—basic (1)	119,870,711	119,592,191	120,469,066	117,387,714
Common equivalent shares from options to purchase common stock and restricted stock units	4,752,871	2,254,792	4,134,016	2,847,662
Dilutive effect of assumed conversion of restricted stock units	2,368,406	1,308,104	1,812,373	1,075,915
Dilutive effect of assumed conversion of convertible debt	2,004,447	—	—	—
Dilutive effect of assumed conversion of restricted stock from acquisition	89,702	69,472	81,826	35,630
Weighted-average common shares outstanding—diluted	129,086,137	123,224,559	126,497,281	121,346,921
Net inco me per share attributable to common stockholders—b asic	$ 0.17	$ 0.22	$ 0.30	$ 0.32
Net income per share a ttri butable to common stockholders—diluted	$ 0.15	$ 0.21	$ 0.29	$ 0.31

(1) 57,482 shares of unvested stock are considered participating securities and are excluded from basic shares outstanding for the three and nine months ended September 30, 2018 .

The following potential common shares were excluded from the calculation of diluted net income per share attributable to common stockholders because their effect would have been anti-dilutive for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options	8,166	2,211,038	467,072	4,980,520
Restricted stock units	52,197	185,472	1,174,618	792,024
Total anti-dilutive securities	60,363	2,396,510	1,641,690	5,772,544

Etsy, Inc.

Notes to Consolidated Financial Statements

Note 11—Segment and Geographic Information

The Company has determined it operates as one operating and reportable segment for purposes of allocating resources and evaluating financial performance.

Revenue by country is based on the billing address of the seller. The following table summarizes revenue, (loss) income before income taxes and net income (loss) by geographic area for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
United States	$ 106,228	$ 75,829	$ 287,956	$ 220,898
International	44,138	30,551	115,709	84,065
Revenue	$ 150,366	$ 106,380	$ 403,665	$ 304,963
United States (1)	$ (2,527)	$ (9,116)	$ 3,224	$ (41,421)
International	17,123	22,356	28,978	55,420
(Loss) income before income taxes	$ 14,596	$ 13,240	$ 32,202	$ 13,999
United States	$ 2,478	$ 3,549	$ 7,985	$ (17,386)
International	17,416	22,253	28,255	54,436
Net income (loss)	$ 19,894	$ 25,802	$ 36,240	$ 37,050

(1) The loss before income taxes in the three months ended September 30, 2018 was primarily driven by non-cash interest expense related to the amortization of debt discount and transaction costs in connection with the convertible debt issued in the first quarter of 2018 and interest associated with the build-to-suit lease accounting related to our corporate headquarters.

No individual country's revenue other than the United States exceeded 10% of total revenue for the periods presented. All significant long-lived assets are located in the United States.

Note 12—Commitments and Contingencies

Long-Term Debt

In March 2018 , the Company issued $345.0 million aggregate principal amount of 0% Convertible Senior Notes due 2023 (the "Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The Notes will mature on March 1, 2023 , unless earlier converted or repurchased, and there are no contractual payments required until maturity. For more information on the Notes, see " Note 3—Convertible Debt ."

Non-Income Tax Contingencies

The Company had reserves of $2.0 million and $0.4 million at September 30, 2018 and December 31, 2017 , respectively, for certain non-income tax obligations, representing management's best estimate of its probable liability. The Company could also be subject to examination in various jurisdictions related to non-income tax matters. The resolution of these types of matters, if in excess of the recorded reserve, could have an adverse impact on the Company's business.

Etsy, Inc.

Notes to Consolidated Financial Statements

Legal Proceedings

Cervantes and Weiss Cases

On July 21, 2015, a purported securities class action complaint (*Cervantes v. Dickerson, et.al* ., Case No. CIV 534768) was filed in the Superior Court of State of California, County of San Mateo against the Company, certain officers, directors, and underwriters. The complaint asserted violations of Sections 11 and 15 of the Securities Act. The complaint alleged misrepresentations in the Company's Registration Statement on Form S-1 and Prospectus with respect to, among other things, merchandise for sale on the Company's website that may be counterfeit or constitute trademark or copyright infringement. The complaint sought certification as a class action and unspecified compensatory damages plus interest and attorneys' fees. On December 7, 2015, the Company and the underwriter defendants moved to stay the Cervantes action on the grounds of forum non conveniens.

On November 5, 2015, another purported securities class action complaint (*Weiss v. Etsy et al.* , No. CIV 536123) was filed in the Superior Court of State of California, County of San Mateo. The *Weiss* complaint named as defendants the Company and the same officers, directors, and underwriters named in the *Cervantes* complaint, and also asserts violations of Sections 11 and 15 of the Securities Act based on allegedly false or misleading statements or omissions with respect to, among other things, merchandise for sale on the Company's website that may be counterfeit or constitute trademark or copyright infringement. On December 24, 2015, the court consolidated the *Cervantes* and *Weiss* actions. On February 3, 2016, the court granted the Company's motion to stay the consolidated actions. On September 19, 2018, the court granted plaintiffs' request to dismiss the consolidated *Cervantes* and *Weiss* actions with prejudice.

In addition, from time to time in the normal course of business, various other claims and litigation have been asserted or commenced against the Company. Due to uncertainties inherent in litigation and other claims, the Company can give no assurance that it will prevail in any such matters, which could subject the Company to significant liability for damages. Any claims or litigation, regardless of their success, could have an adverse effect on the Company's Consolidated Results of Operations or Cash Flows in the period the claims or litigation are resolved. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business.

Note 13—Restructuring and Other Exit Costs (Income)

On April 30, 2017, the Board of Directors approved a plan to increase efficiency and streamline the Company's cost structure through headcount reductions and a reduction in internal program expenses (the "May Actions"). On June 16, 2017, the Board of Directors approved additional initiatives designed to improve focus on key strategic growth opportunities (together with the May Actions, the "Actions"). The Actions included total headcount reductions of 245 positions or 23% of the total workforce as of December 31, 2016 , closing A Little Market, a market in France, and closing or consolidating certain international offices.

In connection with the Actions, the Company incurred $13.9 million of restructuring and other exit costs in the year ended December 31, 2017 , comprised of employee severance, stock compensation modifications, and other exit costs, largely made up of cash expenditures. The Company generated $0.2 million of income in the nine months ended September 30, 2018 due to changes in estimated severance costs.

The following table displays restructuring and other exit costs (income) recorded related to the Actions and a rollforward of the charges to the accrued expenses balance as of September 30, 2018 (in thousands):

	Severance Charge	Stock-Based Compensation	Other Exit Costs	Total
Balance, December 31, 2017	$ 1,308	$ —	$ 34	$ 1,342
Total restructuring and other exit costs (income)	(156)	—	5	(151)
Cash payments	(793)	—	—	(793)
Balance, March 31, 2018	359	—	39	398
Total restructuring and other exit costs (income)	(43)	—	2	(41)
Cash payments	(271)	—	(16)	(287)
Balance, June 30, 2018	45	—	25	70
Total restructuring and other exit costs (income)	(45)	—	(12)	(57)
Cash payments	—	—	(13)	(13)
Balance, September 30, 2018	$ —	$ —	$ —	$ —

Total restructuring and other exit costs (income) related to the Actions included in the Consolidated Statements of Operations are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$ (6)	$ 5	$ (19)	$ 699
Marketing	(12)	337	(82)	2,686
Product development	(14)	79	(110)	3,180
General and administrative	(25)	1,345	(38)	6,461
Total restructuring and other exit costs (income)	$ (57)	$ 1,766	$ (249)	$ 13,026

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .

You should read the following discussion and analysis of our financial condition and results of operations together with our Consolidated Financial Statements and related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2018 . This discussion, particularly information with respect to our outlook, our plans and strategy for our business, and our performance and future success, includes forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report, particularly in the " Risk Factors " section. For more information regarding key factors affecting our performance, see"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting our Performance" in our Annual Report on Form 10-K, which we incorporate by reference.

Overview

Business

Etsy is the global marketplace for unique and creative goods. We connect creative entrepreneurs with thoughtful consumers looking for items made by real people. Our mission is to "Keep Commerce Human."

Our sellers are the heart and soul of Etsy, and our technology platform allows our sellers to turn their creative passions into economic opportunity. We have a seller-aligned business model: we make money when our Etsy sellers make money, so we continue to invest in building the platform they depend on. We offer a wide range of services that are specifically designed to help creative entrepreneurs start, manage, and scale their businesses.

Buyers tell us that they come to Etsy because Etsy sellers offer items that they can't find anywhere else. Our goal is to encourage existing and potential buyers to visit the Etsy marketplace on "special" purchase occasions throughout the year. These special purchase occasions include: shopping that reflects an individual's unique style; gifting that demonstrates thought and care; and celebrations that express creativity and fun.

Our revenue is diversified, generated from a mix of marketplace activities and other optional services for Etsy sellers.

Marketplace revenue is composed of the fees an Etsy seller pays us for marketplace activities. Marketplace activities include listing an item for sale, completing transactions between a buyer and a seller, and using Etsy Payments to process payments, including foreign currency payments. Revenue from Etsy Payments, our payments processing product, formerly included in Services revenue, is now included in Marketplace revenue because Etsy Payments is required to be used by Etsy sellers in the countries where it is available.

Services revenue, formerly called Seller Services revenue, is composed of the fees an Etsy seller pays us for our optional other services ("Services"). Services include Promoted Listings, our on-site advertising service that allows sellers to pay for prominent placement of their listings in search results; Etsy Shipping Labels, which allows sellers in the United States and Canada to purchase discounted shipping labels; Pattern by Etsy, a service that allows sellers to build custom websites; Etsy Plus, a subscription offering that provides sellers with enhanced tools and credits for use on our platform; and Targeted Offers, a product that allows our sellers to offer discounts and coupons to buyers who have favorited items or added items to their cart.

We generate additional revenue through our commercial partnerships, which is classified as Other revenue.

Our strategy is focused on growing our Etsy.com marketplace in our core geographies, and owning special purchase occasions – style, gifting, and celebrations – throughout the year. We believe that buyers shop for special occasions many times throughout the year, so our goal is to have them think of Etsy more often and return to our marketplace more frequently.

We aim to empower our passionate community of 2.0 million Etsy sellers to compete and win against mass retailers for special shopping occasions. We believe that we can achieve these goals by executing on four key initiatives:

- Enhancing search and discovery . Helping buyers better navigate the over 50 million items on Etsy.com is a key area of focus.
- Improving trust and reliability. We want to ensure that the Etsy brand delivers trust and reliability throughout the buying experience and improve conversion.

- Building world-class marketing capabilities . We are focused on driving traffic to Etsy.com utilizing our own marketing efforts and the efforts of our sellers, primarily through digital acquisition marketing, search engine optimization, social and television channels, and email.
- Providing best-in-class seller tools and services . We plan to continue to invest in tools and paid services that enable Etsy sellers to start, manage, and scale their businesses.

Quarter Highlights

Total revenue was $150.4 million and $403.7 million in the three and nine months ended September 30, 2018 , respectively, driven by growth in both Marketplace and Services revenue. In the three and nine months ended September 30, 2018 , we recorded net income of $19.9 million and $36.2 million , respectively, and non-GAAP Adjusted EBITDA of $34.0 million and $88.2 million , respectively. See "–Non-GAAP Financial Measures" for more information and for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated in accordance with GAAP.

As of September 30, 2018 , our marketplace connected 2.0 million active Etsy sellers and 37.1 million active Etsy buyers, in nearly every country in the world. In the three and nine months ended September 30, 2018 , Etsy sellers generated GMS of $922.5 million and $2.7 billion , respectively, of which approximately 56% and 55% , respectively, came from purchases made on mobile devices. We are a global company and approximately 35% of our GMS in the three and nine months ended September 30, 2018 came from transactions where either an Etsy seller or an Etsy buyer was located outside of the United States.

New Pricing Model

Effective July 16, 2018 , we increased our seller transaction fee from 3.5% to 5%, and now apply it to the cost of shipping in addition to the cost of the item. The revised fee structure is intended to support increased investments in the growth and health of the marketplace. We believe our new pricing model will have a positive effect on revenue .

We also announced new subscription packages and enhanced tools that are intended to support global sellers at different stages of their business life cycles. In mid-July, we launched Etsy Plus, which sellers can opt into for $10 per month. Sellers may also choose Etsy Standard and continue to have access to the same tools and services that are already available on Etsy without an additional monthly fee. In 2019, we plan to introduce Etsy Premium, which is expected to be geared towards larger, more established creative businesses. Given that our learnings on subscription packages are still nascent, we are continuing to evaluate and learn from the recent launch of Etsy Plus and will evaluate the best strategy for our current and planned subscription packages going forward as we optimize for seller success.

Other Operational Highlights

During the third quarter, we continued to focus on our four key initiatives through our work on the following new features and tools:

- Enhancing search and discovery: We continued to launch new product enhancements and build upon prior launches to help buyers find the right product at the right time, or discover inspiration among the items in our marketplace. We continued to improve search relevance using context specific ranking and worked to accelerate home and search page load times. We optimized landing pages by adding more recommendations and notifications, including alerts on listing cards when scarce items appear in other people's carts and introduced a new discovery feed to inspire buyers to explore more products and expand their search beyond their original intent. Additionally, we optimized the desktop browsing experience by opening listing pages in a new tab to reduce the friction of searching through multiple listings.

- Improving trust and reliability: We launched several product enhancements aimed at bolstering trust on the platform and improving conversion rates. We made several significant customer support improvements by introducing live chat for our sellers and, in October, we launched inbound phone support for both buyers and sellers. Our service is now a 24x7 offering. We improved our buyer experience to make it easier for buyers to provide information for personalization and customization details on the listing and cart pages, and a notification on our cart page to inform a buyer when they are close to meeting criteria for a shop sale. We added shop review ratings on the cart page to give buyers more confidence in making a purchase decision.

- Building world-class marketing capabilities: We continued to focus on utilizing our marketing efforts to drive new and existing buyers to Etsy. We began sending on-site and email notifications to inform buyers when one of their recently favorited items goes on sale. We ran our first-ever television advertising campaign in select regional markets in the U.S and also began to test specific new top of the funnel ad campaigns.

- Providing best-in-class seller tools and services: We launched subscription packages designed to give sellers more ways to grow their businesses and their brands, and continued to focus on shipping improvements. In October, we expanded our Etsy Shipping Labels offering to our sellers in the United Kingdom through our new agreement with Royal Mail. Also, we launched our Seller Holiday Campaign, which provides tools and guidance to our sellers as they prepare for the holiday season.

In addition to our four key initiatives, we have focused on growth investments, such as our migration to Google Cloud. In the third quarter of 2018, we achieved a significant milestone in the process by successfully migrating our website and mobile apps to Google Cloud. We believe that moving to Google Cloud is positioning us well for growth by allowing us to focus on strategic initiatives, enhance site performance, and improve engineering efficiency. We expect to complete the migration by the end of 2019.

Reclassification of Revenue Categories

In connection with the adoption of ASU 2014-09, *Revenue from Contracts with Customers (* "ASC 606") in the first quarter of 2018, we renamed our revenue categories Marketplace and Services revenue. In addition, we reclassified Etsy Payments from Services to Marketplace revenue as described in " Business " above.

The following table provides our Marketplace and Services revenue under our previous and current presentation:

	Quarter-to-Date Period Ended				Year-to-Date Period Ended			
	Previous Presentation		Updated Presentation		Previous Presentation		Updated Presentation	
	Marketplace Revenue	Services Revenue	Marketplace Revenue	Services Revenue	Marketplace Revenue	Services Revenue	Marketplace Revenue	Services Revenue
	(in thousands)							
December 31, 2017	$ 54,251	$ 82,319	$ 102,261	$ 34,309	$ 179,492	$ 258,453	$ 326,076	$ 111,869
September 30, 2017	42,413	63,371	77,808	27,976	125,241	176,134	223,815	77,560
June 30, 2017	42,069	58,816	75,445	25,440	82,828	112,763	146,007	49,584
March 31, 2017	40,759	53,947	70,562	24,144	40,759	53,947	70,562	24,144

Key Operating and Financial Metrics

We collect and analyze operating and financial data to evaluate the health and performance of our business and allocate our resources (such as capital, people, and technology investments). The unaudited key operating and financial metrics we use are:

	Three Months Ended September 30,		% Growth (Decline) Y/Y	Nine Months Ended September 30,		% Growth (Decline) Y/Y
	2018	2017		2018	2017	
	(in thousands, except percentages)					
GMS	$ 922,513	$ 766,354	20.4 %	$ 2,685,273	$ 2,234,157	20.2 %
Revenue	$ 150,366	$ 106,380	41.3 %	$ 403,665	$ 304,963	32.4 %
Marketplace revenue	$ 110,927	$ 77,808	42.6 %	$ 290,200	$ 223,815	29.7 %
Services revenue	$ 38,194	$ 27,976	36.5 %	$ 110,306	$ 77,560	42.2 %
Net inco me	$ 19,894	$ 25,802	(22.9)%	$ 36,240	$ 37,050	(2.2)%
Adjusted EBITDA	$ 34,035	$ 22,769	49.5 %	$ 88,151	$ 45,187	95.1 %
Active sellers	2,043	1,891	8.0 %	2,043	1,891	8.0 %
Active buyers	37,134	31,680	17.2 %	37,134	31,680	17.2 %
Percent mobile GMS	56%	52%	400 bps	55%	51%	400 bps
Percent international GMS	35%	34%	100 bps	35%	33%	200 bps

GMS

Gross merchandise sales (“GMS”) is the dollar value of items sold in our marketplace within the applicable period, excluding shipping fees and net of refunds associated with canceled transactions. GMS does not represent revenue earned by Etsy. GMS is largely driven by transactions in our marketplace and is not directly impacted by Services activity. However, because our revenue and cost of revenue depend significantly on the dollar value of items sold in our marketplace, we believe that GMS is an indicator of the success of Etsy sellers, the satisfaction of Etsy buyers, and the health, scale, and growth of our business.

Adjusted EBITDA

Adjusted EBITDA represents our net income adjusted to exclude: interest and other non-operating expense, net ; benefit for income taxes ; depreciation and amortization ; stock-based compensation expense ; foreign exchange loss (gain) and restructuring and other exit costs (income). See “ Non-GAAP Financial Measures ” for more information regarding our use of Adjusted EBITDA, including its limitations as a financial measure, and for a reconciliation of Adjusted EBITDA to net income , the most directly comparable financial measure calculated in accordance with GAAP.

Active Sellers

An active seller is an Etsy seller who has incurred at least one charge from us in the last 12 months. Charges include Marketplace, Services and Other Revenue fees discussed in “ Note 2—Revenue .” An Etsy seller is identified by a unique e-mail address; a single person can have multiple Etsy seller accounts. We succeed when Etsy sellers succeed, so we view the number of active sellers as a key indicator of the awareness of our brand, the reach of our platform, the potential for growth in GMS and revenue and the health of our business.

Active Buyers

An active buyer is an Etsy buyer who has made at least one purchase in the last 12 months. An Etsy buyer is identified by a unique e-mail address; a single person can have multiple Etsy buyer accounts. We generate revenue when Etsy buyers order items from Etsy sellers, so we view the number of active buyers as a key indicator of our potential for growth in GMS and revenue, the reach of our platform, awareness of our brand, the engagement and loyalty of Etsy buyers and the health of our business.

Mobile GMS

Mobile GMS is GMS that results from a transaction completed on a mobile device, such as a tablet or a smartphone. Mobile GMS excludes A Little Market and Etsy Wholesale and orders initiated on mobile devices but ultimately completed on a desktop. When calculating percent mobile GMS, we do not take into account refunds associated with canceled transactions. We believe that mobile GMS indicates our success in converting mobile activity into mobile purchases and demonstrates our ability to grow GMS and revenue.

International GMS

International GMS is GMS from transactions where either the billing address for the Etsy seller or the shipping address for the Etsy buyer at the time of sale is outside of the United States. When calculating percent international GMS, we do not take into account refunds associated with canceled transactions. We believe that international GMS shows the level of engagement of our community outside the United States and demonstrates our ability to grow GMS and revenue.

Currency-Neutral GMS Growth

We calculate currency-neutral GMS growth by translating current period GMS for goods sold that were listed in non-U.S. dollar currencies into U.S. dollars using prior year foreign currency exchange rates.

As reported and currency-neutral GMS growth for the periods presented below is as follows:

	Quarter-to-Date Period Ended			Year-to-Date Period Ended		
	As Reported	Currency Neutral	FX Impact	As Reported	Currency Neutral	FX Impact
September 30, 2018	20.4%	20.8%	(0.4)%	20.2%	19.2%	1.0 %
June 30, 2018	20.4%	19.3%	1.1 %	20.1%	18.5%	1.6 %
March 31, 2018	19.8%	17.6%	2.2 %	19.8%	17.6%	2.2 %
December 31, 2017	17.8%	16.5%	1.3 %	14.5%	14.3%	0.2 %
September 30, 2017	13.2%	12.6%	0.6 %	13.0%	13.4%	(0.4)%

Results of Operations

The following tables show our results of operations for the periods presented and express the relationship of certain line items as a percentage of revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results. For more information regarding the components of our results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Our Results of Operations" in the Annual Report, which we incorporate by reference.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue:				
Marketplace	$ 110,927	$ 77,808	$ 290,200	$ 223,815
Services	38,194	27,976	110,306	77,560
Other	1,245	596	3,159	3,588
Total revenue	150,366	106,380	403,665	304,963
Cost of revenue	46,947	36,383	133,651	106,766
Gross profit	103,419	69,997	270,014	198,197
Operating expenses:				
Marketing	39,516	23,520	94,651	74,495
Product development	24,418	16,958	68,707	56,828
General and administrative	20,748	22,094	61,359	73,268
Total operating expenses	84,682	62,572	224,717	204,591
Income (loss) from operations	18,737	7,425	45,297	(6,394)
Other (expense) income, net	(4,141)	5,815	(13,095)	20,393
Income before income taxes	14,596	13,240	32,202	13,999
Benefit for income taxes	5,298	12,562	4,038	23,051
Net inco me	$ 19,894	$ 25,802	$ 36,240	$ 37,050

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Marketplace	73.8 %	73.1%	71.9 %	73.4 %
Services	25.4	26.3	27.3	25.4
Other	0.8	0.6	0.8	1.2
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue	31.2	34.2	33.1	35.0
Gross profit	68.8	65.8	66.9	65.0
Operating expenses:				
Marketing	26.3	22.1	23.4	24.4
Product development	16.2	15.9	17.0	18.6
General and administrative	13.8	20.8	15.2	24.0
Total operating expenses	56.3	58.8	55.7	67.1
Income (loss) from operations	12.5	7.0	11.2	(2.1)
Other (expense) income, net	(2.8)	5.5	(3.2)	6.7
Income before income taxes	9.7	12.4	8.0	4.6
Benefit for income taxes	3.5	11.8	1.0	7.6
Net inco me	13.2 %	24.3%	9.0 %	12.1 %

Comparison of Three Months Ended September 30, 2018 and 2017

Revenue

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Revenue:				
Marketplace	$ 110,927	$ 77,808	$ 33,119	42.6%
Percentage of total revenue	73.8%	73.1%		
Services	$ 38,194	$ 27,976	$ 10,218	36.5%
Percentage of total revenue	25.4%	26.3%		
Other	$ 1,245	$ 596	$ 649	108.9%
Percentage of total revenue	0.8%	0.6%		
Total revenue	$ 150,366	$ 106,380	$ 43,986	41.3%

GMS increased $ 156.2 million , or 20.4% , to $ 922.5 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 . On a currency-neutral basis GMS growth for the three months ended September 30, 2018 would have been 20.8% , or approximately 40 basis points higher than the reported 20.4% growth . Supporting this growth in GMS, active sellers increased 8.0% to 2.0 million and active buyers increased 17.2% to 37.1 million at September 30, 2018 compared to September 30, 2017 . In the three months ended September 30, 2018 , GMS from new buyers grew 12% year-over-year and represented approximately 17% of overall GMS, a slight decrease compared to last year. In the three months ended September 30, 2018 , GMS from repeat buyers grew 23% year-over-year and represented approximately 83% of overall GMS, a slight increase compared to last year.

During the three months ended September 30, 2018 mobile GMS increased as a percentage of total GMS to approximately 56% , up from approximately 52% for the three months ended September 30, 2017 . We believe this increase was a result of increased mobile traffic, and, to a lesser extent, continued improvements in our mobile offerings for Etsy buyers.

For the three months ended September 30, 2018 , international GMS increased as a percentage of total GMS to approximately 35% , up from approximately 34% for the three months ended September 30, 2017 . International GMS was up approximately 26% in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 . On a currency-neutral basis international GMS growth for the three months ended September 30, 2018 would have been 27% . We expect international GMS to continue to grow faster than overall GMS, driven by global product enhancements and assuming stable currency rates.

Revenue increased $ 44.0 million , or 41.3% , to $ 150.4 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 , of which 73.8% of the total consisted of Marketplace revenue and 25.4% consisted of Services revenue.

Marketplace revenue increased $ 33.1 million , or 42.6% , to $ 110.9 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 . This growth corresponded with a 20.4% increase in GMS to a total of $ 922.5 million for the three months ended September 30, 2018 . Marketplace revenue increased at a faster rate than GMS primarily due to the increase in transaction revenue, up 85.9% year-over-year, primarily driven by changes in our pricing model, which drove approximately 69.8% of the 85.9% increase . As of July 16, 2018, we increased our transaction fee from 3.5% to 5%, and now apply this fee to the cost of shipping in addition to the cost of the item. Etsy Payments revenue grew 20.1% and listing fee revenue grew 19.1% largely driven by overall GMS growth trends. The share of GMS processed through our Etsy Payments platform was 86% in the three months ended September 30, 2018 , down from 87% in the three months ended September 30, 2017 , driven by GMS growth in countries where Etsy Payments is not available.

Services revenue increased $ 10.2 million , or 36.5% , to $ 38.2 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 . The growth in Services revenue was primarily driven by an increase in Promoted Listings, up 35.0% , and, to a lesser extent, Etsy Shipping Labels, up 26.8% . The increase in Promoted Listings revenue was due to higher click volume and overall product enhancements, including enhancements we made to budget utilization and context specific ranking on Promoted Listings, which increased the relevance of promoted ads in our search results. The increase in Etsy Shipping Label revenue was driven by a combination of an increase in label volume and an increase in average margin per label. We also saw modest contributions from service offerings introduced in 2018, including Etsy Plus and Targeted Offers.

Other revenue increased 108.9% to $1.2 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 , mainly attributable to an increase in revenue related to our Google Shopping offering for Etsy sellers.

Cost of Revenue

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Cost of revenue	$ 46,947	$ 36,383	$ 10,564	29.0%
Percentage of total revenue	31.2%	34.2%		

Cost of revenue increased $10.6 million , or 29.0% , to $ 46.9 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 , primarily driven by additional costs as a result of the increase in transactions and related revenue generated on the Etsy platform. The remaining fluctuation was driven by hosting and bandwidth costs incurred as a result of our migration to the cloud while also maintaining our current infrastructure, and, to a lesser extent, increases in employee-related expenses. Cost of revenue decreased as a percentage of revenue largely due to changes in our pricing model.

Operating Expenses

We had 851 total employees on September 30, 2018 , compared with 789 total employees on September 30, 2017 and 744 on December 31, 2017 .

Marketing

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Marketing	$ 39,516	$ 23,520	$ 15,996	68.0%
Percentage of total revenue	26.3%	22.1%		

Marketing expenses increased $16.0 million , or 68.0% , to $39.5 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 , primarily as a result of increased spend on digital marketing related to buyer acquisition and, to a lesser extent, increases in direct marketing and professional services expenses associated with a television ad campaign. We expect to increase our investment in direct marketing in the fourth quarter of 2018.

Product development

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Product development	$ 24,418	$ 16,958	$ 7,460	44.0%
Percentage of total revenue	16.2%	15.9%		

Product development expenses increased $7.5 million , or 44.0% , to $ 24.4 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 , primarily as a result of an increase in employee-related expenses, including stock-based compensation, and increased professional services expenses for consultants working on our product and engineering teams. The increase in employee-related expenses is mainly due to an increase in average headcount and additional expenses related to a one-time stock modification related to the departure of our Chief Operating Officer. This modification and other employee-related expenses will also increase product development expenses in the fourth quarter of 2018.

General and administrative

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
General and administrative	$ 20,748	$ 22,094	$ (1,346)	(6.1)%
Percentage of total revenue	13.8%	20.8%		

General and administrative expenses decreased $1.3 million , or 6.1% , to $ 20.7 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 , primarily driven by a decrease in employee-related expenses, including $1.3 million of restructuring and other exit costs included in general and administrative expenses for the three months ended September 30, 2017 that did not recur in 2018.

Other (Expense) Income, net

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Other (expense) income, net:				
Interest expense	$ (6,135)	$ (2,908)	$ (3,227)	111.0 %
Percentage of total revenue	(4.1)%	(2.7)%		
Interest and other income	$ 2,367	$ 654	$ 1,713	261.9 %
Percentage of total revenue	1.6 %	0.6 %		
Foreign exchange (loss) gain	$ (373)	$ 8,069	$ (8,442)	(104.6)%
Percentage of total revenue	(0.2)%	7.6 %		
Other (expense) income, net	$ (4,141)	$ 5,815	$ (9,956)	(171.2)%
Percentage of total revenue	(2.8)%	5.5 %		

Other expense, net was $4.1 million in the three months ended September 30, 2018 , which increased $10.0 million from other income, net of $5.8 million in the three months ended September 30, 2017 . The increase in expense was primarily driven by the decrease in non-functional currency intercompany balances, the change in U.S. Dollar to Euro exchange rates on our intercompany and other non-functional currency balances and higher interest expense, mainly non-cash interest related to our convertible debt issued in the first quarter of 2018, partially offset by increased interest and dividend income related to our investment accounts. Interest expense also includes non-cash interest expense associated with the build-to-suit lease accounting related to our corporate headquarters, which remained flat year-over-year.

Benefit for Income Taxes

	Three Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Benefit for income taxes	$ 5,298	$ 12,562	$ (7,264)	(57.8)%
Percentage of total revenue	3.5%	11.8%		

Our income tax benefit for the three months ended September 30, 2018 and 2017 was $5.3 million and $12.6 million , respectively. Our tax rate is affected by items that may differ between and among periods.

The primary driver of our income tax benefit for the three months ended September 30, 2018 was a discrete tax benefit for stock based compensation of $5.8 million .

The primary drivers of our income tax benefit for the three months ended September 30, 2017 were the exclusion of certain foreign jurisdictions that are subject to a valuation allowance from the forecasted annual effective tax rate in the amount of $8.9 million , and a discrete tax benefit for stock based compensation of $8.9 million .

Comparison of Nine Months Ended September 30, 2018 and 2017

Revenue

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Revenue:				
Marketplace	$ 290,200	$ 223,815	$ 66,385	29.7 %
Percentage of total revenue	71.9%	73.4%		
Services	$ 110,306	$ 77,560	$ 32,746	42.2 %
Percentage of total revenue	27.3%	25.4%		
Other	$ 3,159	$ 3,588	$ (429)	(12.0)%
Percentage of total revenue	0.8%	1.2%		
Total revenue	$ 403,665	$ 304,963	$ 98,702	32.4 %

GMS increased $ 451.1 million , or 20.2% , to $ 2.7 billion in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 . On a currency-neutral basis GMS growth for the nine months ended September 30, 2018 would have been 19.2% , or approximately 100 basis points lower than the reported 20.2% growth . Supporting this growth in GMS, active sellers increased 8.0% to 2.0 million and active buyers increased 17.2% to 37.1 million at September 30, 2018 compared to September 30, 2017 . In the nine months ended September 30, 2018 , GMS from new buyers grew 15% year-over-year and represented approximately 17% of overall GMS, a slight decrease compared to last year. In the nine months ended September 30, 2018 , GMS from repeat buyers grew 23% year-over-year and represented approximately 83% of overall GMS, a slight increase compared to last year.

During the nine months ended September 30, 2018 mobile GMS increased as a percentage of total GMS to approximately 55% , up from approximately 51% for the nine months ended September 30, 2017 . We believe this increase was a result of increased mobile traffic, and, to a lesser extent, continued improvements in our mobile offerings for Etsy buyers.

For the nine months ended September 30, 2018 , international GMS increased as a percentage of total GMS to 35% , up from approximately 33% for the nine months ended September 30, 2017 . International GMS was up approximately 28% in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , largely as a result of a benefit from currency exchange rates. On a currency-neutral basis international GMS growth for the nine months ended September 30, 2018 would have been 25% .

Revenue increased $ 98.7 million , or 32.4% , to $ 403.7 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , of which 71.9% consisted of Marketplace revenue and 27.3% consisted of Services revenue.

Marketplace revenue increased $ 66.4 million , or 29.7% , to $ 290.2 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 . This growth corresponded with a 20.2% increase in GMS to a total of $ 2.7 billion for the nine months ended September 30, 2018 . Marketplace revenue increased at a faster rate than GMS primarily due to the increase in transaction revenue and Etsy Payments revenue in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 . Transaction revenue increased 41.7% year-over-year, primarily driven by changes in our pricing model, which drove approximately 23.9% of the 41.7% increase . Etsy Payments revenue increased 26.1% , largely driven by overall GMS growth trends and increased seller adoption. The share of GMS processed through our Etsy Payments platform was 86% in the nine months ended September 30, 2018 , up from 84% in the nine months ended September 30, 2017 , primarily due to the transition of sellers in eligible countries to the platform. During the second quarter of 2018, we reached the anniversary of the Etsy Payments adoption requirement, which has been a substantial driver of year-over-year Etsy Payments revenue growth, and therefore, we expect Etsy Payments to grow more closely in-line with year-over-year GMS growth in future quarters. Listing fee revenue grew 16.9% , driven by overall GMS growth. Listing fee revenue increased at a slower rate than GMS primarily due to the issuance of free listings for promotional activities focused on driving growth in our international markets.

Services revenue increased $ 32.7 million , or 42.2% , to $ 110.3 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 . The growth in Services revenue was primarily driven by an increase in Promoted Listings, up 40.0% , and, to a lesser extent, Etsy Shipping Labels, up 50.7% . The increase in Promoted Listings revenue was due to higher click volume and overall product enhancements, including enhancements we made to budget utilization and context specific ranking on Promoted Listings, which increased the relevance of promoted ads in our search results. The increase in Etsy Shipping Label revenue was primarily driven by a combination of an increase in label volume and an increase in average margin per label. Additionally, Etsy Shipping Label revenue reflects a one-time adjustment to recognize prior period revenue which drove $2.8 million of the increase.

Other revenue decreased $ 0.4 million , or 12.0% , to $ 3.2 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , mainly attributable to a decrease in Google Shopping revenue primarily due to a one-time gain recorded during the nine months ended September 30, 2017 and a promotional campaign that ran in the first quarter of 2018 to match Etsy Seller's spend on Google Shopping which drove Google Shopping revenue negative for the quarter.

Cost of Revenue

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Cost of revenue	$ 133,651	$ 106,766	$ 26,885	25.2%
Percentage of total revenue	33.1%	35.0%		

Cost of revenue increased $ 26.9 million , or 25.2% , to $ 133.7 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , primarily driven by additional costs as a result of the increase in transactions and related revenue generated on the Etsy platform. The remaining fluctuation was driven by hosting and bandwidth costs incurred as a result of our migration to the cloud while also maintaining our current infrastructure, and, to a lesser extent, increases in employee-related expenses. Restructuring and other exit costs of $0.7 million associated with the Actions were included in cost of revenue for the nine months ended September 30, 2017 , but did not have a significant impact on the period-over-period comparison. Cost of revenue decreased as a percentage of revenue largely due changes in our pricing model and favorable pricing from third-party payment processors.

Operating Expenses

Marketing

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Marketing	$ 94,651	$ 74,495	$ 20,156	27.1%
Percentage of total revenue	23.4%	24.4%		

Marketing expenses increased $ 20.2 million , or 27.1% , to $ 94.7 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , primarily as a result of increased spend on digital marketing related to buyer acquisition and, to a lesser extent, increased direct marketing and professional services expenses associated with a television ad campaign. These increases were offset by decreases in employee-related expenses due to a reduction in average headcount and $2.7 million of restructuring and other exit costs associated with the Actions included in marketing expense for the nine months ended September 30, 2017 that did not recur in 2018. Excluding the impact of restructuring and other exit costs, non-GAAP marketing expenses increased $22.8 million , or 31.8% .

Product development

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Product development	$ 68,707	$ 56,828	$ 11,879	20.9%
Percentage of total revenue	17.0%	18.6%		

Product development expenses increased $ 11.9 million , or 20.9% , to $ 68.7 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , primarily as a result of an increase in professional services expenses for consultants working on our product and engineering teams and increased employee-related expenses, including stock-based compensation. Additionally, $3.2 million of restructuring and other exit costs associated with the Actions is included in product development expenses for the nine months ended September 30, 2017 . Excluding the impact of restructuring and other exit costs, non-GAAP product development expenses increased $15.1 million , or 28.1% .

General and administrative

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
General and administrative	$ 61,359	$ 73,268	$ (11,909)	(16.3)%
Percentage of total revenue	15.2%	24.0%		

General and administrative expenses decreased $ 11.9 million , or 16.3% , to $ 61.4 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 , primarily due to decreased employee-related expenses, mainly the result of a reduction in average headcount and $6.5 million of restructuring and other exit costs associated with the Actions included in general and administrative expenses for the nine months ended September 30, 2017 that did not recur in 2018. Excluding the impact of restructuring and other exit costs, non-GAAP general and administrative expenses decreased $5.4 million , or 8.2% .

Other (Expense) Income, net

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Other (expense) income, net:				
Interest expense	$ (16,024)	$ (8,195)	$ (7,829)	95.5 %
Percentage of total revenue	(4.0)%	(2.7)%		
Interest and other income	$ 5,902	$ 1,636	$ 4,266	260.8 %
Percentage of total revenue	1.5 %	0.5 %		
Foreign exchange (loss) gain	$ (2,973)	$ 26,952	$ (29,925)	(111.0)%
Percentage of total revenue	(0.7)%	8.8 %		
Other (expense) income, net	$ (13,095)	$ 20,393	$ (33,488)	(164.2)%
Percentage of total revenue	(3.2)%	6.7 %		

Other expense, net was $13.1 million in the nine months ended September 30, 2018 , which increased $33.5 million from other income, net of $20.4 million in the nine months ended September 30, 2017 . The increase in expense was primarily driven by the decrease in non-functional currency intercompany balances, the change in U.S. Dollar to Euro exchange rates on our intercompany and other non-functional currency balances and higher interest expense, mainly non-cash interest related to our convertible debt issued in the first quarter of 2018, partially offset by increased interest and dividend income related to our investment accounts. Interest expense also includes non-cash interest expense associated with the build-to-suit lease accounting related to our corporate headquarters, which remained flat year-over-year.

Benefit for Income Taxes

	Nine Months Ended September 30,		Change	
	2018	2017	$	%
	(in thousands except percentages)			
Benefit for income taxes	$ 4,038	$ 23,051	$ (19,013)	(82.5)%
Percentage of total revenue	1.0%	7.6%		

Our income tax benefit for the nine months ended September 30, 2018 and 2017 was $4.0 million and $23.1 million , respectively. Our tax rate is affected by items that may differ between and among periods.

The primary drivers of our income tax benefit for the nine months ended September 30, 2018 were a discrete tax benefit for stock based compensation of $9.2 million and a benefit related to our research and development tax credit of $ 3.6 million . These were partially offset by a tax expense on pretax book income of $8.7 million .

The primary drivers of our income tax benefit for the nine months ended September 30, 2017 were the exclusion of certain foreign jurisdictions that are subject to a valuation allowance from the forecasted annual effective tax rate of $11.4 million , a discrete tax benefit for stock based compensation of $12.2 million , and a discrete tax benefit related to restructuring and exit costs of $3.8 million .

Non-GAAP Financial Measures

Adjusted EBITDA

In this Quarterly Report, we provide Adjusted EBITDA, a non-GAAP financial measure that represents our net income adjusted to exclude: interest and other non-operating expense, net ; benefit for income taxes ; depreciation and amortization ; stock-based compensation expense ; foreign exchange loss (gain) ; and restructuring and other exit costs (income). Below is a reconciliation of Adjusted EBITDA to net income , the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA because it is a key measure used by our management and Board of Directors to evaluate our operating performance and trends, allocate internal resources, prepare and approve our annual budget, develop short- and long-term operating plans, determine incentive compensation, and assess the health of our business. As our Adjusted EBITDA increases, we are able to invest more in our platform.

We believe that Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our business as it removes the impact of certain non-cash items and certain variable charges.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect other non-operating expenses, net of other non-operating income, including net interest expense;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not consider the impact of stock-based compensation expense ;
- Adjusted EBITDA does not consider the impact of foreign exchange loss (gain) ;
- Adjusted EBITDA does not consider the impact of restructuring and other exit costs (income); and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net income and our other GAAP results.

The following table reflects the reconciliation of net income to Adjusted EBITDA for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net inco me	$ 19,894	$ 25,802	$ 36,240	$ 37,050
Excluding:				
Interest and other non-operating expense, net (1)	3,768	2,254	10,122	6,559
Benefit for income taxes	(5,298)	(12,562)	(4,038)	(23,051)
Depreciation and amortization (1)	6,439	7,022	19,116	20,620
Stock-based compensation expense (2)	8,191	5,832	21,829	14,756
Stock-based compensation expense—acquisitions	725	724	2,158	3,179
Foreign exchange loss (gain) (3)	373	(8,069)	2,973	(26,952)
Restructuring and other exit costs (income) (4)	(57)	1,766	(249)	13,026
Adjusted EBITDA	$ 34,035	$ 22,769	$ 88,151	$ 45,187

(1) Included in interest and depreciation expense amounts above, are interest and depreciation expense related to our headquarters under build-to-suit accounting requirements, which commenced in May 2016. In the three and nine months ended September 30, 2018 and 2017 those amounts are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Interest expense	$ 2,249	$ 2,384	$ 6,748	$ 6,752
Depreciation	819	819	2,457	2,457

(2) $1.0 million and $2.6 million of restructuring-related stock-based compensation expense has been excluded from the three and nine months ended September 30, 2017 , respectively, and is included in total restructuring and other exit costs below. See note (4). Total stock-based compensation expense included in the Consolidated Statements of Operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$ 894	$ 469	$ 2,367	$ 1,231
Marketing	642	447	1,819	1,419
Product development	4,697	2,180	11,361	6,253
General and administrative	2,683	4,425	8,440	11,665
Total stock-based compensation expense	$ 8,916	$ 7,521	$ 23,987	$ 20,568

(3) See "— Results of Operations — Other (Expense) Income, net " for more information on the fluctuation in foreign exchange loss (gain) in the three and nine months ended September 30, 2018 and 2017 .

(4) Total restructuring and other exit costs (income) related to the Actions included in the Consolidated Statements of Operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenue	$ (6)	$ 5	$ (19)	$ 699
Marketing	(12)	337	(82)	2,686
Product development	(14)	79	(110)	3,180
General and administrative	(25)	1,345	(38)	6,461
Total restructuring and other exit costs (income)	$ (57)	$ 1,766	$ (249)	$ 13,026

Statement of Operations Line Items Excluding Restructuring and Other Exit Costs (Income)

In this Quarterly Report, we discuss certain financial statement line items excluding restructuring and other exit costs (income) , each a non-GAAP financial measure that represents the income statement line item adjusted to exclude restructuring and other exit costs (income) incurred in the three and nine months ended September 30, 2018 and 2017 .

We have included these financial statement line items excluding restructuring and other exit costs (income) because the Actions were unusual and do not necessarily reflect the ongoing trends in these financial statement line items. We believe that these non-GAAP measures can provide a useful measure for period-to-period comparisons of our business as it removes the impact of the Actions.

These non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- many of these costs were or will be settled in cash;
- there is no certainty that restructuring and other exit costs (income) will not recur;

- other companies, including companies in our industry, may adjust for similar items in a different manner, or may not exclude such charges, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider these non-GAAP measures alongside other financial performance measures, including the GAAP financial statement line items.

The following table reflects the reconciliation of each affected GAAP line item of the Consolidated Statement of Operations to the non-GAAP line item excluding restructuring and other exit costs (income) for each of the periods indicated:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Restructuring and Other Exit Costs (Income)	Excluding Restructuring and Other Exit Costs (Income)	As Reported	Restructuring and Other Exit Costs (Income)	Excluding Restructuring and Other Exit Costs (Income)
	(in thousands)					
Revenue	$ 150,366	$ —	$ 150,366	$ 403,665	$ —	$ 403,665
Cost of revenue	46,947	(6)	46,953	133,651	(19)	133,670
Gross profit	103,419	(6)	103,413	270,014	(19)	269,995
Operating expenses:						
Marketing	39,516	(12)	39,528	94,651	(82)	94,733
Product development	24,418	(14)	24,432	68,707	(110)	68,817
General and administrative	20,748	(25)	20,773	61,359	(38)	61,397
Total operating expenses	84,682	(51)	84,733	224,717	(230)	224,947
Income from operations	$ 18,737	$ (57)	$ 18,680	$ 45,297	$ (249)	$ 45,048

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Reported	Restructuring and Other Exit Costs (Income)	Excluding Restructuring and Other Exit Costs (Income)	As Reported	Restructuring and Other Exit Costs (Income)	Excluding Restructuring and Other Exit Costs (Income)
	(in thousands)					
Revenue	$ 106,380	$ —	$ 106,380	$ 304,963	$ —	$ 304,963
Cost of revenue	36,383	5	36,378	106,766	699	106,067
Gross profit	69,997	5	70,002	198,197	699	198,896
Operating expenses:						
Marketing	23,520	337	23,183	74,495	2,686	71,809
Product development	16,958	79	16,879	56,828	3,180	53,648
General and administrative	22,094	1,345	20,749	73,268	6,461	66,807
Total operating expenses	62,572	1,761	60,811	204,591	12,327	192,264
Loss from operations	$ 7,425	$ 1,766	$ 9,191	$ (6,394)	$ 13,026	$ 6,632

Liquidity and Capital Resources

The following table shows our cash and cash equivalents, short-term investments, accounts receivable and net working capital as of the date indicated:

	As of September 30, 2018 (in thousands)
Cash and cash equivalents	$ 362,727
Short-term investments	221,409
Accounts receivable, net	36,385
Net working capital	579,018

As of September 30, 2018 , our cash and cash equivalents, a majority of which were held in cash deposits and money market funds, were held in the United States for future investments, working capital funding, and general corporate purposes.

We invest in short-term instruments, including fixed-income funds and AA-rated U.S. Government and agency securities aligned with our investment strategy. These investments are intended to allow us to preserve our principal, maintain the ability to meet our liquidity needs, deliver positive yields and continue to provide us with direct fiduciary control. In accordance with our investment policy, all investments have maturities no longer than 36 months, with the average maturity of these investments maintained at 12 months or less.

Sources of Liquidity

In March 2018 , we issued $345.0 million aggregate principal amount of 0% Convertible Senior Notes due 2023 (the "Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The initial conversion price of the Notes represented a premium of approximately 37.5% over the price of Etsy's common stock. The net proceeds from the sale of the Notes were $335.0 million after deducting initial purchasers' discount and offering expenses. For more information on the Notes, see " Note 3—Convertible Debt " in the Notes to Consolidated Financial Statements.

We believe that our existing cash and cash equivalents and short-term investments, together with cash generated from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in our "Risk Factors" in this report.

The majority of our cash and cash equivalents and short-term investments are held in the U.S. We fund our international operations from our funds held in the U.S. on an as-needed basis.

Historical Cash Flows

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Cash provided by (used in):		
Operating activities	$ 97,132	$ 32,322
Investing activities	(244,178)	37,818
Financing activities	197,025	6,871

Net Cash Provided by Operating Activities

Our cash flows from operations are largely dependent on the amount of revenue generated on our platform, as well as associated cost of revenue and other operating expenses. Our primary source of cash from operating activities is cash collections from our customers. Net cash provided by operating activities in each period presented has been influenced by changes in accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities.

Net cash provided by operating activities was $97.1 million in the nine months ended September 30, 2018 , primarily driven by cash net income of $88.8 million , largely as a result of revenue generated on our platform and leverage in our operating expenses, and changes in our operating assets and liabilities that provided $8.3 million in cash.

Net cash provided by operating activities was $32.3 million in the nine months ended September 30, 2017 , primarily driven by cash net income of $38.0 million largely as a result of revenue generated on our platform and changes in our operating assets and liabilities that used $5.7 million in cash.

Net Cash (Used in) Provided by Investing Activities

Our primary investing activities consist of sales, maturities and purchases of short-term marketable securities, cash paid to purchase intangible assets, and capital expenditures, including investments in capitalized website development and internal-use software and purchases of property and equipment to support our overall business growth.

Net cash used in investing activities was $244.2 million in the nine months ended September 30, 2018 . This was primarily attributable to net purchases of marketable securities of $194.7 million , $35.3 million in cash paid for the DaWanda intangible asset acquisition, and $14.1 million in capital expenditures, including $13.7 million for website development and internal-use software as we continued to invest in projects adding new features and functionality to the Etsy platform.

Net cash provided by investing activities was $37.8 million in the nine months ended September 30, 2017 . This was primarily attributable to net sales of marketable securities of $49.7 million , mainly due to increased investments in instruments with shorter-term maturities, classified as cash equivalents, as we continued to monitor interest rate changes. This increase was offset by $11.9 million in capital expenditures, including $8.0 million for website development and internal-use software as we continued to invest in projects adding new features and functionality to the Etsy platform, and $3.9 million for purchases of property and equipment.

Net Cash Provided by Financing Activities

Our primary financing activities include proceeds from the issuance of the Notes, repurchases of common stock under the share repurchase program, shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units, proceeds from exercise of stock options, payments on our facility financing obligation related to the build-to-suit accounting treatment of our Brooklyn headquarters lease, and financing of capital leases for computer equipment.

Net cash provided by financing activities was $197.0 million in the nine months ended September 30, 2018 . This was primarily attributable to proceeds from issuance of the Notes of $345.0 million and proceeds from the exercise of stock options of $15.6 million , partially offset by stock repurchases under the share repurchase program of $89.7 million , payments of $34.2 million for the Capped Call transactions, stock repurchases of vested RSUs withheld to satisfy tax obligations of 17.1 million , and $10.0 million of debt issuance cost payments.

Net cash provided by financing activities was $6.9 million in the nine months ended September 30, 2017 . This was primarily attributable to proceeds from the exercise of stock options of $21.9 million , partially offset by payments on capital lease obligations of $5.8 million , stock repurchases of vested RSUs withheld to satisfy tax obligations of $4.9 million and payments on facility financing obligations of $4.3 million , related to the built-to-suit accounting treatment of our Brooklyn headquarters lease.

Off Balance Sheet Arrangements

As of September 30, 2018 , we did not have any off balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

In March 2018 , we issued $345.0 million aggregate principal amount of 0% Convertible Senior Notes due 2023 (the “Notes”) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The Notes will mature on March 1, 2023 , unless earlier converted or repurchased, and there are no contractual payments required until maturity. For more information on the Notes, see “ Note 3—Convertible Debt ” in the Notes to Consolidated Financial Statements.

As of September 30, 2018 , there were no other material changes in commitments under contractual obligations, compared to the contractual obligations disclosed in the Annual Report.

Unrecognized tax benefits totaled $18.0 million and $17.0 million at September 30, 2018 and December 31, 2017 , respectively. While the ultimate resolution and timing of these unrecognized tax positions remain uncertain, we do not expect this balance to significantly increase or decrease over the next 12 months.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, determining the nature and timing of satisfaction of performance obligations and stand-alone selling price for use in allocating the subscription price; income taxes, website development costs and internal-use software, purchase price allocations for business combinations, valuation of goodwill and intangible assets, leases, stock-based compensation, restructuring and other exit costs (income), and fair value of financial instruments have the greatest potential impact on our Consolidated Financial Statements. Therefore, we consider these to be our critical accounting policies and estimates.

For information regarding changes to our significant accounting policies, please refer to " Note 1—Basis of Presentation and Summary of Significant Accounting Policies " in the Notes to Consolidated Financial Statements. For a summary of our significant accounting policies, see our Annual Report on Form 10-K.

Recent Accounting Pronouncements

For information regarding our recently issued accounting pronouncements and recently adopted accounting pronouncements, please refer to " Note 1—Basis of Presentation and Summary of Significant Accounting Policies " in the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risks during the nine months ended September 30, 2018 , compared to those discussed in the Annual Report, except as described below.

Currency Risk

Most of our sales are denominated in U.S. dollars, and therefore, our revenue is not currently subject to significant foreign currency risk. For the three and nine months ended September 30, 2018 , approximately 82% and 83% , respectively of our GMS was denominated in U.S. dollars, and therefore, the resulting revenue is not subject to foreign currency risk. In the three and nine months ended September 30, 2018 , approximately 18% and 17% , respectively of GMS was from goods that were not listed in U.S. dollars and, as a result, was impacted by currency exchange fluctuations. On a currency-neutral basis, GMS growth for the three and nine months ended September 30, 2018 would have been 20.8% and 19.2% , respectively, compared with the reported 20.4% and 20.2% growth, respectively. On a currency-neutral basis, GMS growth for the three and nine months ended September 30, 2017 would have been 12.6% and 13.4% , respectively, compared with the reported 13.2% and 13.0% growth, respectively.

Our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in currency exchange rates, particularly changes in the Euro and Pound Sterling. Fluctuations in currency exchange rates may cause us to recognize transaction gains and losses in our Consolidated Statement of Operations. A 10% increase or decrease in current exchange rates could result in an increase or decrease to currency exchange (loss) gain of $33.7 million .

On January 1, 2015, we implemented a revised corporate structure to more closely align our structure with our global operations and future expansion plans outside of the United States, which resulted in a U.S. dollar-denominated intercompany debt on a Euro-denominated ledger that was subject to continued currency exchange rate risk through the middle of the fourth quarter of 2017. In the fourth quarter of 2017, we established a new legal entity based in Ireland with a U.S. dollar functional currency to help mitigate the currency rate risk on our intercompany debt.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018 . "Disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to the company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2018 at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the third quarter of 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving the desired control objectives. Our management recognizes that any control system, no matter how well designed and operated, is based upon certain judgments and assumptions and cannot provide absolute assurance that its objectives will be met. Similarly, an evaluation of controls cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

See “ Note 12—Commitments and Contingencies — Legal Proceedings ” in the Notes to Consolidated Financial Statements.

Item 1A. Risk Factors .

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, our Consolidated Financial Statements and related notes, and the other information in this Quarterly Report on Form 10-Q . If any of these risks actually occur, our business, financial condition, results of operations, and prospects could be adversely affected. As a result, the price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business and Industry

We have a history of losses and we may not achieve or maintain profitability in the future.

We generated net income of $36.2 million and $81.8 million for the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively, and incurred net losses of $29.9 million and $54.1 million for the years ended December 31, 2016 and 2015, respectively. A significant portion of our net income in the year ended December 31, 2017 was due to an income tax benefit from the impact of the U.S. Tax Cuts and Jobs Act of 2017 and a foreign currency gain on our intercompany debt. We may not have the benefit of such gains and may not be profitable in future periods. In addition, our costs may increase as we continue to invest in the development of our platform, including our Services and technological enhancements, and potentially increase our marketing efforts, expand our operations, and hire additional employees. These efforts may be more costly than we expect and our revenue may not increase sufficiently to offset these additional expenses. In addition, our revenue may decline for a number of reasons, including those described elsewhere in these Risk Factors.

Further, our revenue growth rate may continue to decelerate in the future for a number of reasons, including the deceleration of our GMS growth rate. For further information about the rate of revenue and GMS growth, see “ Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Revenue .” You should not rely on growth rates of prior quarterly or annual periods as an indication of our future performance.

Our quarterly operating results may fluctuate, which could cause our stock price to decline.

Our quarterly operating results, as well as our key metrics, may fluctuate for a variety of reasons, many of which are beyond our control, including:

- fluctuations in revenue generated from Etsy sellers on our platform, including as a result of the seasonality of market transactions, and Etsy sellers’ use of Services;
- our ability to convert visits to Etsy.com into sales for our sellers;
- the amount and timing of our operating expenses;
- our success in attracting and retaining Etsy sellers and Etsy buyers;
- our success in executing on our strategy and the impact of any changes in our strategy;
- the timing and success of product launches, including new services and features we may introduce, such as the launch and adoption of our new seller subscription packages in connection with our new pricing model;
- the success of our marketing efforts;
- economic and market conditions, such as currency fluctuations and global events;
- disruptions or defects in our marketplace, such as privacy or data security breaches or other incidents that impact the reliability of our platform;
- the impact of competitive developments and our response to those developments;

- our ability to manage our existing business and future growth;
- our ability to recruit and retain employees;
- the impact and success of the actions that we implemented during the second quarter of 2017 to increase efficiency, streamline our cost structure, and improve our focus on key strategic growth opportunities; and
- the impact of our revised global corporate structure that was implemented on January 1, 2015.

Fluctuations in our quarterly operating results and key metrics may cause those results to fall below our financial guidance or other projections, or the expectations of analysts or investors, which could cause the price of our common stock to decline. Fluctuations in our results could also cause a number of other problems. For example, analysts or investors might change their models for valuing our common stock, we could experience short-term liquidity issues, our ability to retain or attract key personnel may diminish and other unanticipated issues may arise.

In addition, we believe that our quarterly operating results and key metrics may vary in the future and that period-to-period comparisons of our operating results may not be meaningful. For example, our overall historical growth rate may have overshadowed the effect of seasonal variations on our historical operating results. These seasonal effects may become more pronounced over time, which could also cause our operating results and key metrics to fluctuate. You should not rely on the results of one quarter as an indication of future performance.

If we are unable to successfully execute on our business strategy or if our strategy proves to be ineffective, our business, financial performance and growth could be adversely affected.

In 2017, we introduced a new business strategy. Our ability to execute our strategy is dependent on a number of factors, including the ability of our senior management team and key team leaders to execute our strategy, our ability to maintain our pace of product experiments coupled with the success of such initiatives and introduce offerings that meet the changing needs of our sellers and buyers, and the ability of our employees to perform at a high-level. If we are unable to execute our strategy, if our strategy does not drive the growth that we anticipate, or if our market opportunity is not as large as we have estimated, it could adversely affect our business, financial performance and growth.

Our new pricing model could harm our reputation and adversely affect our business, financial performance and growth.

In June 2018, we announced our updated pricing model, which includes new subscription packages and an increased seller transaction fee. This is the first time we have implemented pricing changes on our platform since our inception and we have limited experience with modeling and implementing such changes. As a result, our new pricing model may not have the intended impact on, and could adversely affect, our business, financial performance and growth. If Etsy sellers do not subscribe in adequate numbers to our Etsy Plus service or to the Etsy Premium service that is presently planned for 2019, our subscription packages may not be successful. Finally, these pricing changes have been and may continue to be controversial in our Etsy seller community and could lead to further dissatisfaction among Etsy sellers, which could harm our reputation, reduce the number of active sellers on our platform and negatively impact our GMS and revenue growth.

Our business, financial performance and growth depends on our ability to attract and retain an active and engaged community of Etsy sellers and Etsy buyers.

Our financial performance has been and will continue to be significantly determined by our success in attracting and retaining active sellers and active buyers. For example, our revenue is driven by the number of active sellers and seller engagement, as well as the number of active buyers and buyer engagement. We must continue to encourage Etsy sellers to list items for sale and use our Services. We must also encourage buyers to return to Etsy and purchase items in our marketplace more frequently.

We believe that many new Etsy sellers and Etsy buyers find Etsy.com by word of mouth and other non-paid referrals from existing Etsy sellers and Etsy buyers. If existing Etsy sellers are dissatisfied with their experience on our platform, including as a result of our recent pricing model update and seller subscription packages, they may stop listing items in our marketplace and using our Services and may stop referring others to us. Likewise, if existing Etsy buyers do not find our platform appealing, whether because of a negative experience, lack of competitive shipping costs, inadequate customer service, lack of buyer-friendly features, declining interest in the nature of the goods offered by Etsy sellers or other factors, they may make fewer purchases and they may stop referring others to us. Under any of these circumstances, we may have difficulty attracting new Etsy sellers and Etsy buyers without incurring additional expense.

Even if we are able to attract new Etsy sellers and Etsy buyers to replace the ones that we lose, they may not maintain the same level of activity, and the revenue generated from new Etsy sellers and Etsy buyers may not be as high as the revenue generated from the ones who leave our marketplace. If we are unable to retain existing Etsy sellers and Etsy buyers and attract new Etsy sellers and Etsy buyers who contribute to an active community, our business, financial performance and growth would be harmed.

Additionally, the demand for the goods listed in our marketplace is dependent on consumer preferences which can change quickly and may differ across generations and cultures. If demand for the goods that Etsy sellers offer declines, we may not be able to attract and retain Etsy buyers and our business would be harmed. Trends in socially-conscious consumerism and buying unique rather than mass produced goods could also shift or slow which would make it more difficult to attract new Etsy sellers and Etsy buyers. Our growth would also be harmed if the shift to ecommerce does not continue.

Our business could be adversely affected by economic downturns, natural disasters, public health crises, political crises or other unexpected events.

Macroeconomic conditions may adversely affect our business. If general economic conditions deteriorate in the United States or other markets where we operate, consumer discretionary spending may decline and demand for the goods and services available in our platform may be reduced. This would cause sales in our Marketplace and Services revenue to decline and adversely impact our business. Conversely, if recent trends supporting self-employment and the desire for supplemental income were to reverse, the number of Etsy sellers offering their goods in our marketplace could decline and the number of goods listed in our marketplace could decline. In addition, currency exchange rates may directly and indirectly impact our business. For example, if the U.S. dollar strengthens against foreign currencies, our translation of foreign currency denominated GMS will result in lower U.S. denominated GMS. Currency exchange rates may also dampen demand from buyers outside the United States for goods denominated in U.S. dollars, which could impact GMS and revenue. For the nine months ended September 30, 2018 , approximately 83% of our GMS was denominated in U.S. dollars.

Natural disasters and other adverse weather and climate conditions, public health crises, political instability or crises, terrorist attacks, war or other unexpected events, could disrupt our operations, internet or mobile networks, or the operations of one or more of our third-party service providers. For example, when Hurricane Sandy struck New York in October 2012, our headquarters in Brooklyn was closed for five days. In addition, certain events, such as hurricanes and other natural disasters, are likely to impact buyer behavior for discretionary goods and sellers' ability to run their businesses on our marketplace and ship their goods. These events may also impact consumer perceptions of well-being and security, which may adversely impact consumer discretionary spending. If any of these events occurs, our business could be adversely affected.

Our ability to recruit and retain employees is important to our success.

Our ability to attract, retain and motivate employees, including our management team, is important to our success. We strive to attract, retain, and motivate employees, from our office administrators to our management team, who share our dedication to our community and our mission to "Keep Commerce Human." We cannot guarantee we will continue to attract and retain the number or caliber of employees we need to maintain our competitive position.

Some of the challenges we face in attracting and retaining employees include:

- perceived uncertainties as to our commitment to our mission, values and culture;
- skepticism regarding our ability to continue to accelerate GMS growth in the future;
- continuing to offer competitive compensation and benefits;
- enhancing engagement levels among existing employees and their work-life balance;
- attracting and retaining qualified employees who support our mission and share our values;
- promoting existing employees into leadership positions to help sustain and grow our culture;
- hiring employees in multiple locations globally; and
- responding to competitive pressures and changing business conditions in ways that do not divert us from our values.

Filling engineering, product management and other technical positions, particularly in New York City and San Francisco, is challenging. Qualified individuals are limited and in high demand, and we may incur significant costs to attract, develop, and motivate them. Even if we were to offer higher compensation and other benefits, people with suitable technical skills may choose not to join us or to continue to work for us. In addition, job candidates and existing employees often consider the value of the stock awards they receive in connection with their employment. If the perceived value of our stock awards declines, it may adversely affect our ability to recruit and retain highly skilled employees.

In general, our employees, including our management team, work for us on an at-will basis. The unexpected loss of or failure to retain one or more of our key employees, such as our Chief Executive Officer, Chief Financial Officer or Chief Technology Officer, or unsuccessful succession planning, could adversely affect our business. Other companies, including our competitors, may be successful in recruiting and hiring our employees, and it may be difficult for us to find suitable replacements on a timely basis or on competitive terms.

In the second quarter of 2017, we experienced a number of changes to our senior management team and effected headcount reductions globally. These changes led to higher rates of voluntary attrition compared to prior years, which has stabilized. If we experience additional voluntary attrition in the future and if we are unable to attract qualified employees, particularly in critical areas of operations such as engineering, we may not achieve our strategic goals and our business and operations could be harmed.

The trustworthiness of our marketplace and the connections within our community are important to our success. If we are unable to maintain them, our ability to attract and retain Etsy sellers and Etsy buyers could suffer.

We have built a trusted marketplace that embodies our values-based culture and continue to focus on ensuring that we deliver trust and reliability throughout the buyer experience on Etsy.com. Our reputation depends upon our Etsy sellers, their unique offerings and their adherence to our policies.

The trustworthiness of our marketplace and the connections among the members of our community are the cornerstones of our business. Many things could undermine these cornerstones, such as:

- complaints or negative publicity about us, our platform or our policies and guidelines, even if factually incorrect or based on isolated incidents;
- an inability to gain the trust of prospective buyers;
- disruptions or defects in our marketplace, such as the increased pace of product experimentation, privacy or data security breaches, site outages, payment disruptions or other incidents that impact the reliability of our platform;
- lack of awareness of our policies;
- changes to our policies that members of our community perceive as inconsistent with our values or that are not clearly articulated;
- a failure to enforce our policies effectively, fairly and transparently, including, for example, by allowing the widespread listing of prohibited items in our marketplace;
- inadequate or unsatisfactory customer service experiences;
- a failure to respond to feedback from our community; or
- a failure to operate our business in a way that is consistent with our values and mission.

In particular, we are focused on enhancing customer service for Etsy sellers and Etsy buyers and have migrated our legacy support platform to a new third-party customer service platform. We plan to introduce new customer service features and tools to support a positive user experience on our platform. If our efforts to enhance customer service are unsuccessful or if our new customer service platform fails to meet our needs, we may need to invest additional resources in customer service and our ability to maintain a trustworthy marketplace could be harmed.

If we are unable to maintain a trustworthy marketplace and encourage connections among members of our community, then our ability to attract and retain Etsy sellers and Etsy buyers could be impaired and our reputation and business could be adversely affected.

If we are not able to keep pace with technological changes and enhance our current offerings and develop new offerings to respond to the changing needs of Etsy sellers and Etsy buyers, our business, financial performance and growth may be harmed.

Our industry is characterized by rapidly changing technology, new service and product introductions and changing customer demands and we are not able to predict the effect of these changes on our business. The technologies that we currently use to support our platform may become inadequate or obsolete and the cost of incorporating new technologies into our products and services may be substantial. We strive to respond to evolving customer needs and regularly launch new products, features and services including, for example, our recently announced seller subscription packages and tools that are included in our new pricing model. Etsy sellers and Etsy buyers, however, may not be satisfied with our enhancements or new offerings or may perceive that these offerings do not respond to their needs or create value for them. Additionally, as we experiment with new offerings or changes to our platform, Etsy sellers and Etsy buyers may find these changes to be disruptive and may perceive them negatively. In addition, developing new services and features is complex, and the timetable for public launch is difficult to predict and may vary from our historical experience. As a result, the introduction of new offerings may occur after anticipated release dates or they may be introduced as pilot programs, which may not be continued for various reasons. In addition, new offerings may not be successful due to defects or errors, negative publicity or our failure to market them effectively.

New offerings may not drive GMS or revenue growth, may require substantial investment and planning, and may bring us more directly into competition with companies that are better established or have greater resources than we do.

If we do not continue to cost-effectively develop new offerings that satisfy Etsy sellers and Etsy buyers, then our competitive position and growth prospects may be harmed. In addition, new offerings may have lower margins than existing offerings and our revenue from the new offerings may not be enough to offset the cost of developing them, which could adversely affect our business, financial performance and growth.

Our marketing efforts to help grow our business may not be effective.

Maintaining and promoting awareness of our Marketplace and Services is important to our ability to attract and retain Etsy sellers and Etsy buyers. One of our key initiatives is to build world-class marketing capabilities to amplify the voice and relevance of our sellers, and to get buyers to purchase more often. In addition, one of the primary goals of our new pricing model is to enable us to make further investments in marketing designed to attract more buyers to Etsy. Generating a meaningful return on our investments in marketing initiatives, however, may be difficult, particularly as we anticipate that our marketing investments will be more speculative in the future. In addition, there can be no assurance that we will deploy any additional funds resulting from our new pricing model effectively.

The marketing efforts we implement may not succeed for a variety of reasons, including our inability to execute and implement our plans. External factors beyond our control may also impact the success of our marketing initiatives. Our primary marketing efforts currently include search engine optimization, search engine marketing, affiliate marketing and display advertising, as well as, social media, mobile push notifications, and email. We obtain a significant number of visits via search engines such as Google. Search engines frequently change the algorithms that determine the ranking and display of results of a user’s search and may make other changes to the way results are displayed, which can negatively affect the placement of links to our marketplace and, therefore, reduce the number of visits to our marketplace. In addition, search engines and other third-parties typically require compliance with their policies and procedures, which may be subject to change or new interpretation with limited ability to negotiate, which could negatively impact our marketing capabilities and GMS. The growing use of online ad-blocking software, including on mobile devices, may also impact the success of our marketing efforts because we may reach a smaller audience and fail to bring more Etsy buyers to our platform. In addition, ongoing privacy regulatory changes, such as the E.U. General Data Protection Regulation, may impact the scope and effectiveness of marketing and advertising services generally, including those used on our platform.

We also obtain a significant number of visits through email. If we are unable to successfully deliver emails to Etsy sellers and Etsy buyers, or if Etsy sellers and Etsy buyers do not open our emails, whether by choice, because those emails are marked as low priority or spam, or for other reasons, our business could be adversely affected. We have migrated to a new customer relationship management (“CRM”) system that is intended to enable more personalized, dynamic, and timely email communications and push notifications. If the CRM migration fails to achieve the expected results our business could be adversely affected. Social networking websites, such as Facebook and Pinterest, are another important source of visits to our marketplace. As ecommerce and social networking evolve, we must continue to evolve our marketing tactics accordingly and, if we are unable to do so, our business could be adversely affected.

If the mobile solutions available to Etsy sellers and Etsy buyers are not effective, the use of our marketplace could decline.

Purchases made on mobile devices by consumers, including Etsy buyers, have increased significantly in recent years. The smaller screen size and reduced functionality associated with some mobile devices may make the use of our platform more difficult or less appealing. Etsy sellers are also increasingly using mobile devices to operate their businesses on our platform. If we are not able to deliver a rewarding experience on mobile devices, Etsy sellers' ability to manage and scale their businesses may be harmed and, consequently, our business may suffer. Further, although we strive to provide engaging mobile experiences for both Etsy sellers and Etsy buyers who visit our mobile website using a browser on their mobile device, we depend on Etsy sellers and Etsy buyers using our mobile apps for the optimal mobile experience. Visits to our marketplace through a mobile website may not convert into purchases as often as visits made through our mobile app or through desktop, which could result in less revenue for us. Additionally, conversion rates may slow or stall, which could also have a negative impact on GMS and revenue.

As new mobile devices and mobile platforms are released, we may encounter problems in developing or supporting apps for them. In addition, supporting new devices and mobile device operating systems may require substantial time and resources.

The success of our mobile apps could also be harmed by factors outside our control, such as:

- actions taken by providers of mobile operating systems or mobile app download stores;
- unfavorable treatment received by our mobile apps, especially as compared to competing apps, such as the placement of our mobile apps in a mobile app download store;
- increased costs to distribute or use our mobile apps; or
- changes in mobile operating systems, such as iOS and Android, that degrade the functionality of our mobile website or mobile apps or that give preferential treatment to competitive products.

If Etsy sellers and Etsy buyers encounter difficulty accessing or using our platform on their mobile devices, or if they choose not to use our platform on their mobile devices, our business, financial performance, and growth may be adversely affected.

Expanding our community outside of the United States is part of our strategy and the growth of our business could be harmed if our expansion efforts do not succeed.

Our vision is both global and local and we are focused on growing our business outside of the United States. Although we have a significant number of Etsy sellers and Etsy buyers outside of the United States, we have limited experience developing local markets outside the United States and may not execute our strategy successfully. Operating outside of the United States also requires significant management attention, including managing operations over a broad geographic area with varying cultural norms and customs, and adapting our platform to local markets.

Despite our execution efforts, the goods that Etsy sellers list on Etsy.com may not appeal to non-U.S. consumers in the same way as they do to consumers in the United States. In addition, non-U.S. buyers are not as familiar with the Etsy brand as buyers in the United States and may not perceive us as relevant or trustworthy. Also, visits to Etsy.com from Etsy buyers outside the United States may not convert into sales as often as visits from within the United States, including due to the impact of the strong U.S. dollar relative to other currencies and the fact that most of the goods listed on our platform are denominated in U.S. dollars.

Our ability to grow our international operations may also be adversely affected by any circumstances that reduce or hinder cross-border trade. For example, the shipping of goods cross-border is typically more expensive and slower than domestic shipping and often involves complex customs and duty inspections and the dependency of national postal carrier systems.

Our success outside the United States depends upon our ability to attract Etsy sellers and Etsy buyers from the same countries in order to enable the growth of local markets. If we are not able to expand outside of the United States successfully, our growth prospects could be harmed. An inability to develop Etsy's community globally or to otherwise grow our business outside of the United States on a cost-effective basis could adversely affect our GMS, revenue, and operating results.

Competition is also likely to intensify outside of the United States, both where we operate now and where we plan to expand our operations. Local companies based outside the United States may have a substantial competitive advantage because of their greater understanding of, and focus on, their local markets. Some of our competitors may also be able to develop and grow internationally more quickly than we will.

Continued expansion outside of the United States may also require significant financial investment. For example, in June 2018, we announced a referral agreement with DaWanda, a German e-commerce marketplace, which we believe will encourage the migration of DaWanda buyers and sellers to Etsy's marketplace and expand Etsy's presence in Central Europe. We also plan to invest in seller and buyer acquisition marketing, enhancing our machine translation and machine learning to help sellers and buyers connect even if they do not speak the same language, forming relationships with third-party service providers, supporting operations in multiple countries and potentially acquiring companies based outside the United States and integrating those companies with our operations. Our investment outside of the United States may be more costly than we expect or unsuccessful.

Further expansion outside of the United States will subject us to risks associated with operations abroad.

Doing business outside of the United States subjects us to increased risks and burdens such as:

- complying with different (and sometimes conflicting) laws and regulatory standards (particularly including those related to the use and disclosure of personal information, online payments, intellectual property, consumer protection, online platform liability and taxation of goods and services);
- fluctuations of foreign exchange rates;
- potentially heightened risk of fraudulent transactions;
- limitations on the repatriation of funds;
- exposure to liabilities under anti-corruption, anti-money laundering and export control laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.K. Bribery Act of 2010, trade controls and sanctions administered by the U.S. Office of Foreign Assets Control, and similar laws and regulations in other jurisdictions;
- varying levels of internet, e-commerce, and mobile technology adoption and infrastructure;
- our ability to enforce contracts and intellectual property rights in jurisdictions outside the United States;
- geopolitical events such as natural disasters, terrorism and acts of war;
- uncertainties and instability in European markets caused by the United Kingdom's decision to exit the European Union; and
- barriers to international trade, such as tariffs, customs or other taxes.

Etsy sellers face similar risks in conducting their businesses across borders. Even if we are successful in managing the risks of conducting our business across borders, if Etsy sellers are not, our business could be adversely affected. In particular, Etsy buyers and sellers seeking to engage in cross-border sales may become subject to an increasing number of barriers to international trade such as tariffs, customs or other taxes.

If we invest substantial time and resources to expand our operations outside of the United States and cannot manage these risks effectively, the costs of doing business in those markets may be prohibitive or our expenses may increase disproportionately to the revenue generated in those markets.

Regulation in the areas of privacy and protection of user data could harm our business.

In addition to the actual and potential changes in law described elsewhere in these Risk Factors, global developments in privacy and data security regulations are changing some of the ways we and our vendors collect, use and share personal information. Compliance with these changing regulations have necessitated some specific product changes for our non-U.S. activities. In May 2018, the General Data Protection Regulation ("GDPR") went into effect in the E.U., effectively extending the scope of E.U. data protection law to all non-E.U. companies regularly processing data of E.U. persons. The GDPR seeks to harmonize the data protection regulations throughout the entire E.U. The regulation contains numerous requirements and changes from existing E.U. law, including more robust obligations on data processors, greater rights for data subjects (requiring potentially significant changes to both our technology and operations), security and accountability obligations, and significantly heavier documentation and record-keeping requirements for data protection compliance programs. Specifically, the GDPR introduced numerous privacy-related changes for companies operating in the E.U., including greater control over personal data by data subjects (e.g., the "right to be forgotten"), increased data portability, access and redress rights for E.U. consumers, data breach notification requirements, increased rules for online and e-mail marketing, and stronger regulatory enforcement regimes. The GDPR requirements apply to some third-party transactions (such as commercial contracts with partners and vendors) and to transfers of information between us and our subsidiaries, including user and employee information. GDPR requirements may also apply, depending on interpretation of its reach, to some users in Etsy's worldwide community of sellers. We may experience difficulty retaining or obtaining new E.U. sellers or new sellers selling into the E.U. due to the legal requirements, compliance cost, potential risk exposure, and uncertainty for them in respect of their own compliance obligations with respect to GDPR. In addition, although Etsy sellers are independent businesses, it is possible that a privacy authority could deem Etsy jointly and severally liable for actions of Etsy sellers, which would increase our potential liability exposure and costs of compliance, which could negatively impact our business. We could face potential liability, regulatory investigation, and costly litigation, which may not be adequately covered by insurance.

GDPR and the generally evolving data protection landscape globally could result in potentially significant operational costs for internal compliance and risk to our business. We have a cross-functional team that has been working to update our policies, systems, and processes in light of GDPR. Some of the GDPR requirements introduce friction into the buying and selling experience on Etsy and may impact the scope and effectiveness of our marketing efforts, which could negatively impact our business and future outlook. Non-compliance with the GDPR could result in proceedings against us by data protection authorities, other public authorities, third-parties, or individuals, subjecting us to potential fines of up to 20 million Euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater.

In addition, the laws relating to the transfer of personal data outside of the E.U. continue to evolve and remain uncertain. Although we are taking steps to comply and mitigate the potential impact to us, the efficacy and longevity of these steps are uncertain. We may find it necessary to establish systems to maintain personal data originating from the E.U. in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. In the meantime, the evolving data protection landscape also creates uncertainty as to how to comply with E.U. privacy law, including potentially inconsistent guidance, rulings or requirements from multiple authorities in the E.U., as well as in the U.S. and worldwide. Further, we may not be entirely successful in our compliance efforts due to various factors either within our control (such as limited internal resource allocation) or outside our control (such as a lack of vendor cooperation, new regulatory interpretations, or lack of regulatory guidance in respect of certain GDPR requirements).

Our payments system depends on third-party providers and is subject to evolving laws, regulations, rules, and standards.

Etsy buyers primarily pay for purchases using Etsy Payments or PayPal. In the United States and other countries where Etsy Payments is available, Etsy Payments enables our sellers to accept various forms of payments such as credit cards, debit cards, PayPal, Google Wallet, Apple Pay, and Etsy Gift Cards.

We rely on third-party service providers to perform underlying compliance, credit card processing and payment disbursing, currency exchange, identity verification, and fraud analysis services. If these service providers do not perform adequately or if our relationships with these service providers were to terminate, Etsy sellers' ability to receive orders or payment could be adversely affected and our business could be harmed. For example, third-party service providers may experience service outages from time to time that impact Etsy. In July 2016, a third-party payment processor experienced a technical issue that caused payment processing delays and complications for purchases through Etsy Payments, which required Etsy to develop a short-term manual solution. If a third-party payment processor has significant outages in the future and we are unable to provide an alternative payment solution, our business could be harmed. In addition, if our third-party providers increase the fees they charge us, our operating expenses could increase. If we respond by increasing the fees we charge to Etsy sellers, some Etsy sellers may stop listing new items for sale or even close their accounts altogether.

The laws and regulations related to payments are complex, evolving, and subject to change and vary across different jurisdictions in the United States and globally. Moreover, even in regions where such laws have been harmonized, regulatory interpretations of such laws may differ. As a result, we are required to spend significant time and effort to determine whether various laws relating to payments apply to Etsy and to comply with applicable laws and regulations. Any failure or claim of our failure to comply, or any failure by our third-party service providers to comply, could cost us substantial resources, could result in liabilities or could force us to stop offering Etsy Payments. Additionally, changes in payment regulation may occur that could render our payments system less profitable. For example, any significant change in credit or debit card interchange rates in the United States or other markets, including as a result of changes in interchange fee limitations, may negatively impact Etsy Payments.

As we expand the availability of Etsy Payments or offer new payment methods to Etsy sellers and Etsy buyers in the future, we may become subject to additional regulations and compliance requirements.

Further, through our agreements with our third-party payment processors, we are indirectly subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard, which are subject to change. Failure to comply with these rules and certification requirements could impact our ability to meet our contractual obligations with our third-party payment processors and could result in potential fines. We are also subject to rules governing electronic funds transfers. Any change in these rules and requirements could make it difficult or impossible for us to comply. In addition, similar to a potential increase in costs from third-party providers described above, any increased costs associated with compliance with payment card association rules or payment card provider rules could lead to increased fees for Etsy or Etsy sellers, which may negatively impact Etsy Payments usage and our marketplace.

If sensitive information about members of our community is misused or disclosed, or if we or our third-party providers are subject to cyber attacks, members of our community may curtail use of our platform, we may be exposed to liability and our reputation could suffer.

Like all online services, our platform is vulnerable to power outages, telecommunications failures, and catastrophic events, as well as computer viruses, break-ins, phishing attacks, denial-of-service attacks, and other cyber attacks. Any of these incidents could lead to interruptions or shutdowns of our platform, loss of data or unauthorized disclosure of our members' personal or financial information. Cyber attacks could also result in the theft of our intellectual property. As we grow our business, expand internationally, and gain greater public visibility, we may face a higher risk of being targeted by cyber attacks. Although we rely on a variety of security measures, including security testing, encryption, and authentication technology licensed from third parties, we cannot assure you that such measures will provide absolute security, particularly given the increasingly sophisticated tools and methods used by hackers and cyber terrorists. In addition, we have experienced in the past, and may experience in the future, security breaches as a result of non-technical issues, including intentional, inadvertent, or social engineering breaches occurring through our employees or employees of our third-party service providers. In addition, if our employees fail to comply with our internal security policies and practices, member data may be improperly accessed, used or disclosed.

We are also reliant on the security practices of our third party service providers, which may be outside of our direct control. Additionally, some of our third party service providers, such as identity verification and payment processing providers, regularly have access to some confidential and sensitive member data. If these third parties fail to adhere to adequate security practices, or experience a breach of their networks, our members' data may be improperly accessed, used or disclosed.

Cyber attacks aimed at disrupting our and our third-party service providers' services have occurred regularly in the past, and we expect they will continue to occur in the future. If we or our third-party service providers experience security breaches that result in marketplace performance or availability problems or the loss or unauthorized disclosure of sensitive information, or if we fail to respond appropriately to any security breaches that we may experience, people may become unwilling to provide us the information necessary to set up an account with us. Existing Etsy sellers and Etsy buyers may stop listing new items for sale, decrease their purchases or close their accounts altogether. We could also face potential liability, regulatory investigation, costly remediation efforts and litigation, which may not be adequately covered by insurance. Any of these results could harm our growth prospects, our business, and our reputation for maintaining a trusted marketplace.

Adherence to our values and our focus on our mission and long-term sustainability may negatively influence our financial performance. Further, our reputation could be harmed if we fail to meet our impact strategy goals.

Our values are integral to everything we do. Accordingly, we intend to focus on the long-term sustainability of our business and work toward our mission to "Keep Commerce Human." We may take actions in line with our mission and values that we believe will benefit our business and, therefore, our stockholders over a longer period of time, even if those actions do not maximize short- or medium-term financial performance. However, these longer-term benefits may not materialize within the time frame we expect or at all. For example:

- we may choose to prohibit the sale of items in our marketplace that are inconsistent with our policies even though we could benefit financially from the sale of those items; or
- we may choose to revise our policies in ways that we believe will be beneficial to our community in the long term even though the changes may be perceived unfavorably, such as updates to the way we define "handmade."

Additionally, we have developed an impact strategy that focuses on leveraging Etsy's core business to generate value for our community and stakeholders through positive economic, social and environmental efforts. Our impact strategy aims to create more economic opportunity for sellers, greater diversity in our workforce and build long-term resilience by reducing our carbon footprint. If we don’t demonstrate progress against our impact strategy or if our impact strategy is not perceived to be adequate, our reputation could be harmed.

We face intense competition and may not be able to compete effectively.

Our industry is highly competitive and we expect competition to increase in the future. To be successful, we need to attract and retain Etsy sellers and Etsy buyers. As a result, we face competition from a wide range of online and offline competitors.

We compete for Etsy sellers with both retailers and companies that sell software and services to small businesses. In addition to listing her goods for sale on Etsy, an Etsy seller can list her goods with other online retailers, such as Amazon, eBay or Alibaba, or sell her goods through local consignment and vintage stores and other venues or marketplaces, including through commerce channels on social networks like Facebook and Instagram. She may also sell wholesale directly to traditional retailers, including large national retailers, who discover her goods in our marketplace or otherwise. We also compete with companies that sell software and services to small businesses, enabling an Etsy seller to sell from her own website or otherwise run her business independently of our platform, such as Square, Bigcommerce, and Shopify.

We compete to attract, engage, and retain Etsy sellers based on many factors, including:

- our brand awareness;
- the extent to which our Services can ease the administrative tasks that an Etsy seller might encounter in running her business, wherever she chooses to pursue commerce;
- the global scale of our marketplace and the breadth of our online presence;
- the number and engagement of Etsy buyers;
- our seller education resources and tools;
- our policies and fees;
- the ability to scale her business, including through Pattern or with a production partner;
- our mobile apps;
- the strength of our community; and
- our values.

In addition, we compete with retailers for the attention of the Etsy buyer. An Etsy buyer has the choice of shopping with any online or offline retailer, whether large marketplaces, such as Amazon, eBay or Alibaba, or national retail chains, such as West Elm or Target, or local consignment and vintage stores or other venues or marketplaces. Many of these competitors offer low-cost or free shipping, fast shipping times, favorable return policies and other features that may be difficult or impossible for Etsy sellers to match.

We compete to attract, engage, and retain Etsy buyers based on many factors, including:

- the breadth of unique goods that Etsy sellers list in our marketplace;
- the ease of finding the special item a buyer is looking for;
- our brand awareness;
- the person-to-person commerce experience;
- our reputation for trustworthiness;
- our mobile apps;
- ease of payment; and
- the availability and reliability of our platform.

Many of our competitors and potential competitors have longer operating histories, greater resources, better name recognition or more customers than we do.

They may invest more to develop and promote their services than we do, and they may offer lower fees to sellers than we do. Further, our competitors could obtain preferential rates or shipping services, causing Etsy sellers and Etsy buyers to pay higher shipping costs or find alternative delivery services. Additionally, we believe that it is relatively easy for new businesses to create online commerce offerings or tools or services that enable entrepreneurship.

Local companies or more established companies based in markets where we operate outside of the United States may also have a better understanding of local customs, providing them a competitive advantage. For example, in certain markets outside the United States, we compete with smaller, but similar, local online marketplaces with a focus on unique goods that are attempting to attract sellers and buyers in those markets.

If we are unable to compete successfully, or if competing successfully requires us to expend significant resources in response to our competitors' actions, our business could be adversely affected.

We rely on Etsy sellers to provide a fulfilling experience to Etsy buyers.

A small portion of Etsy buyers complain to us about their experience with our platform. For example, Etsy buyers may report that they have not received the items that they purchased, that the items received were not as represented by an Etsy seller or that an Etsy seller has not been responsive to their questions.

Negative publicity and sentiment generated as a result of these types of complaints could reduce our ability to attract and retain Etsy sellers and Etsy buyers or damage our reputation. A perception that our levels of responsiveness and support for Etsy sellers and Etsy buyers are inadequate could have similar results. In some situations, we may choose to reimburse Etsy buyers for their purchases to help avoid harm to our reputation, but we may not be able to recover the funds we expend for those reimbursements. Although we are focused on enhancing customer service, our efforts may be unsuccessful and Etsy sellers and Etsy buyers may be disappointed in their Etsy experience and not return.

Anything that prevents the timely processing of orders or delivery of goods to Etsy buyers could harm Etsy sellers. Service interruptions and delivery delays may be caused by events that are beyond the control of Etsy sellers, such as interruptions in order or payment processing, transportation disruptions, natural disasters, inclement weather, terrorism, public health crises or political unrest. Disruptions in the operations of a substantial number of Etsy sellers could also result in negative experiences for a substantial number of Etsy buyers, which could harm our reputation and adversely affect our business.

Our reputation may be harmed if members of our community use illegal or unethical business practices.

Our emphasis on our values makes our reputation particularly sensitive to allegations of illegal or unethical business practices by Etsy sellers or other members of our community. Our policies promote legal and ethical business practices, such as encouraging Etsy sellers to work only with manufacturers who do not use child or involuntary labor, who do not discriminate and who promote sustainability and humane working conditions. However, we do not control Etsy sellers or other members of our community or their business practices and cannot ensure that they comply with our policies. If members of our community engage in illegal or unethical business practices or are perceived to do so, we may receive negative publicity and our reputation may be harmed.

Failure to deal effectively with fraud could harm our business.

Although we have measures in place to detect and reduce the occurrence of fraudulent activity in our marketplace, those measures may not always be effective.

For example, Etsy sellers occasionally receive orders placed with fraudulent or stolen credit card data. Under current credit card practices, we could be held liable for orders placed through Etsy Payments with fraudulent credit card data even if the associated financial institution approved the credit card transaction. Although we attempt to detect or challenge fraudulent transactions, we may not be able to do so effectively. As a result, our business could be adversely affected. We could also incur significant fines or lose our ability to give the option of paying with credit cards if we fail to follow payment card industry data security standards or payment card association rules or fail to limit fraudulent transactions conducted in our marketplace.

Negative publicity and sentiment resulting from fraudulent or deceptive conduct by members of our community or the perception that our levels of responsiveness and support for Etsy sellers and Etsy buyers are inadequate could reduce our ability to attract and retain Etsy sellers and Etsy buyers and damage our reputation.

Our business depends on continued and unimpeded access to the internet and mobile networks.

Etsy sellers and Etsy buyers rely on access to the internet or mobile networks to access our marketplace. Internet service providers may choose to disrupt or degrade access to our platform or increase the cost of such access. Mobile network operators or operating system providers could block or place onerous restrictions on the ability to download and use our mobile apps.

Internet service providers or mobile network operators could also attempt to charge us for providing access to our platform. In 2015, rules approved by the Federal Communications Commission ("FCC") went into effect that prohibited internet service providers from charging content providers higher rates in order to deliver their content over certain "fast traffic" lanes; however, those rules were repealed in June 2018. This repeal may make it more difficult or costly for many small businesses such as our community of sellers, as well as our buyers, to access our platform and may result in increased costs for us, which could significantly harm our business, and the millions of microbusinesses that utilize our platform. We, along with other companies and public interest groups, are challenging this repeal in the courts, but these efforts may not be successful and may be costly. Outside of the United States, government regulation of the internet, including data localization requirements, limitation on marketplace scope or ownership, intellectual property intermediary liability rules, regulation of online speech, limits on network neutrality and rules related to security, privacy or national security may impede Etsy and our users. As a result, we could face regulatory challenges or discriminatory or anti-competitive practices that could impede both our and Etsy sellers' growth prospects, increase our costs and harm our business.

Our business depends on network and mobile infrastructure provided by third parties and on our ability to maintain and scale the technology underlying our platform.

The reliability of our platform is important to our reputation and our ability to attract and retain Etsy sellers and Etsy buyers. As the number of Etsy sellers and Etsy buyers, volume of traffic, number of transactions, and the amount of information shared on our platform grow, our need for additional network capacity and computing power will also grow. The operation of the technology underlying our platform is expensive and complex, and we could experience operational failures. If we fail to accurately predict the rate or timing of the growth of our platform, we may be required to incur significant additional costs to maintain reliability. The investments we make in our platform are designed to grow our business and to improve our operating results in the long term, but these investments could also delay our ability to achieve profitability or reduce profitability in the near term.

We also depend on the development and maintenance of the internet, cloud and mobile infrastructure, and increasingly rely on the availability, features, cost, and reliability of third-party service providers and platforms. For example, this includes maintenance of reliable internet and mobile networks with the necessary speed, data capacity, and security, as well as timely development of complementary products.

Third-party providers host much of our technology infrastructure and are likely to host more in the future. Any disruption in their services, or any failure of our providers to handle the demands of our marketplace could significantly harm our business. We exercise little control over these providers, which increases our vulnerability to their financial conditions and to problems with the services they provide, such as security concerns. Our efforts to update our infrastructure may not be successful or may take longer than anticipated. If we experience failures in our technology infrastructure or do not expand our technology infrastructure successfully, then our ability to attract and retain Etsy sellers and Etsy buyers could be adversely affected, which could harm our growth prospects and our business.

We will rely on Google Cloud for a substantial portion of our computing, storage, data processing, networking, and other services. Any disruption of or interference with our use of the Google Cloud operation would adversely affect our business, financial performance, and growth.

Google Cloud Platform provides a distributed computing infrastructure as a service platform for business operations, and we are in the process of migrating our data centers to Google Cloud, increasing our reliance on cloud infrastructure. As we implement the transition to the cloud, there will be occasional planned or unplanned downtime for our websites and apps and potential site delays, all of which will impact our sellers' ability to conduct transactions and our buyers' ability to purchase items. We may also need to divert engineering resources away from other important business operations, which could significantly harm our business and growth. Additionally, if the costs to migrate to Google Cloud are greater than we expect or take significantly more time than we anticipate, our business could be harmed.

Any transition of the cloud services currently provided by Google Cloud to another cloud provider would be difficult to implement and will cause us to incur significant time and expense. Any significant disruption of, or interference with, our use of Google Cloud would negatively impact our operations and our business would be seriously harmed. In addition, if hosting costs increase over time and if we require more computing or storage capacity, our costs could increase disproportionately. If we are unable to grow our revenues faster than the cost of utilizing the services of Google or similar providers, our business and financial condition could be adversely affected.

Our business and our Etsy sellers and Etsy buyers may be subject to sales and other taxes.

The application of indirect taxes, such as sales and use tax, value-added tax, provincial taxes, goods and services tax, business tax, and gross receipt tax, to businesses like ours and to Etsy sellers and Etsy buyers is a complex and evolving issue. Significant judgment is required to evaluate applicable tax obligations and as a result amounts recorded are estimates and are subject to adjustments. In many cases, the ultimate tax determination is uncertain because it is not clear how new and existing statutes might apply to our business or to Etsy sellers' businesses. If Etsy is found to be deficient in how it has addressed its tax obligations, our business could be adversely impacted.

One or more states, the federal government or other countries are seeking to, or have recently imposed additional reporting, record-keeping or indirect tax collection and remittance obligations on businesses like ours that facilitate online commerce. If requirements like these become applicable in additional jurisdictions, our business could be harmed. For example, taxing authorities in certain U.S. states and in other countries have identified e-commerce platforms as a means to calculate, collect, and remit indirect taxes for transactions taking place over the internet, and are considering related legislation. Additionally, the Supreme Court's recent decision in *South Dakota v. Wayfair, Inc. et al* overturned existing law that sellers are not required to collect sales and use tax unless they have a physical presence in the buyer's state. As a result of the *Wayfair* decision, states or the federal government may adopt, or begin to enforce laws requiring Etsy sellers to calculate, collect, and remit taxes on their sales. Such changes to current law or new legislation could adversely affect our business if the requirement of tax to be charged on items sold on Etsy causes our marketplace to be less attractive to current and prospective Etsy buyers, which could materially impact our business, financial performance, and growth. Additionally, new legislation could require us or Etsy sellers to incur substantial costs in order to comply, including costs associated with tax calculation, collection, remittance, and audit requirements, which could make selling in our marketplace less attractive.

Our business is subject to a large number of U.S. and non-U.S. laws, many of which are evolving.

We are subject to a variety of laws and regulations in the United States and around the world, including those relating to traditional businesses, such as employment laws and taxation, and laws and regulations focused on internet service providers and online commerce, such as online payments, privacy, anti-spam, data security and protection, online platform liability, intellectual property, and consumer protection. In light of our international operations, we need to comply with various laws associated with doing business outside of the United States, including anti-money laundering, sanctions, anti-corruption, and export control laws. In some cases, non-U.S. privacy, data security, consumer protection, e-commerce, and other laws and regulations are more detailed than those in the United States and, in some countries, are actively enforced.

These laws and regulations are continuously evolving, and compliance is costly and can require changes to our business practices and significant management time and effort.

Additionally, it is not always clear how existing laws apply to the internet as many of these laws do not address the unique issues raised by internet service providers or online commerce. For example, laws relating to online privacy are evolving differently in different jurisdictions. Federal, state, and non-U.S. governmental authorities, as well as courts interpreting the laws, continue to evaluate and assess the privacy requirements relating to the use of third-party "cookies," "web beacons" and other methods of online tracking. The United States, the European Union and other governments have enacted or are considering legislation that could (i) significantly restrict the ability of companies and individuals to collect and store user information, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools and (ii) require internet service providers to disclose user information to regulatory authorities.

Some providers of consumer devices and web browsers have implemented, or have announced plans to implement, ways to block tracking technologies which, if widely adopted, could also result in online tracking methods becoming significantly less effective. Any reduction in our ability to make effective use of such technologies could harm our ability to personalize the experience of Etsy buyers, increase our costs and limit our ability to attract and retain Etsy sellers and Etsy buyers on cost-effective terms. As a result, our business could be adversely affected.

Existing and future laws and regulations enacted by federal, state or non-U.S. governments could impede the growth of internet service providers or online commerce. It is also possible that governments of one or more countries may seek to censor content available on our platform or may even attempt to block access to our platform. If we are restricted from operating in one or more countries, our ability to attract and retain Etsy sellers and Etsy buyers may be adversely affected and we may not be able to grow our business as we anticipate.

We strive to comply with all applicable laws, but they may conflict with each other, and by complying with the laws or regulations of one jurisdiction, we may find that we are violating the laws or regulations of another jurisdiction. Despite our efforts, we may not have fully complied in the past and may not in the future. If we become liable under laws or regulations applicable to us, we could be required to pay significant fines and penalties, our reputation may be harmed and we may be forced to change the way we operate. That could require us to incur significant expenses or to discontinue certain services, which could negatively affect our business.

Additionally, if third parties with whom we work violate applicable laws or our policies, those violations could result in other liabilities for us and could harm our business. Furthermore, the circumstances in which we may be held liable for the acts, omissions or responsibilities of our sellers is uncertain, complex, and evolving. For example, certain laws have recently been enacted seeking to hold marketplaces like ours responsible for certain compliance obligations for which sellers have traditionally been responsible. If an increasing number of such laws are passed, the resulting compliance costs and potential liability risk could negatively impact our business.

Our business could be negatively affected as a result of actions of activist stockholders.

The actions of activist stockholders could adversely affect our business. Specifically, responding to common actions of an activist stockholder, such as requests for special meetings, potential nominations of candidates for election to our Board of Directors, requests to pursue a strategic combination or other transaction or other special requests, could disrupt our operations, be costly and time-consuming or divert the attention of our management and employees. In addition, perceived uncertainties as to our future direction in relation to the actions of an activist stockholder may result in the loss of potential business opportunities or the perception that we are unstable as a company, which may make it more difficult to attract and retain qualified employees. Actions of an activist stockholder may also cause fluctuations in our stock price based on speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

We may be subject to claims that items listed in our marketplace are counterfeit, infringing or illegal.

Although we do not create or take possession of the items listed in our marketplace by Etsy sellers, we frequently receive communications alleging that items listed in our marketplace infringe third-party copyrights, trademarks, patents or other intellectual property rights. We have intellectual property complaint and take-down procedures in place to address these communications, and we believe such procedures are important to promote confidence in our marketplace. We follow these procedures to review complaints and relevant facts to determine the appropriate action, which may include removal of the item from our marketplace and, in certain cases, closing the shops of Etsy sellers who repeatedly violate our policies.

Our procedures may not effectively reduce or eliminate our liability. In particular, we may be subject to civil or criminal liability for activities carried out by Etsy sellers on our platform, especially outside the United States where laws may offer less protection for intermediaries and platforms than the United States. Under current U.S. copyright law and the Communications Decency Act, we may benefit from statutory safe harbor provisions that protect us from copyright liability for content posted on our platform by Etsy sellers and Etsy buyers. However, trademark and patent laws do not include similar statutory provisions, and liability for these forms of intellectual property is often determined by court decisions. These safe harbors and court rulings may change unfavorably. In that event, we may be held secondarily liable for the intellectual property infringement of Etsy sellers.

Regardless of the validity of any claims made against us, we may incur significant costs and efforts to defend against or settle them. If a governmental authority determines that we have aided and abetted the infringement or sale of counterfeit goods or if legal changes result in us potentially being liable for actions by Etsy sellers on our platform, we could face regulatory, civil or criminal penalties. Successful claims by third-party rights owners could require us to pay substantial damages or refrain from permitting any further listing of the relevant items. These types of claims could force us to modify our business practices, which could lower our revenue, increase our costs or make our platform less user-friendly. Moreover, public perception that counterfeit or other unauthorized items are common in our marketplace, even if factually incorrect, could result in negative publicity and damage to our reputation.

Our software is highly complex and may contain undetected errors.

The software underlying our platform is highly interconnected and complex and may contain undetected errors or vulnerabilities, some of which may only be discovered after the code has been released. We rely heavily on a software engineering practice known as “continuous deployment,” meaning that we typically release software code many times per day. This practice may result in the more frequent introduction of errors or vulnerabilities into the software underlying our platform, which can impact the user experience on Etsy.com. Additionally, due to the interconnected nature of the software underlying our platform, updates to certain parts of our code, including changes to Etsy or third party APIs on which Etsy relies, could have an unintended impact on other sections of our code, which may result in errors or vulnerabilities to our platform. Any errors or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of our community members, loss of revenue or liability for damages, any of which could adversely affect our growth prospects and our business.

We may be subject to intellectual property claims, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies in the future.

Companies in the internet and technology industries are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. We periodically receive communications that claim we have infringed, misappropriated or misused others’ intellectual property rights. To the extent we gain greater public recognition, we may face a higher risk of being the subject of intellectual property claims. Third-parties may have intellectual property rights that cover significant aspects of our technologies or business methods and prevent us from expanding our offerings. Third parties may also allege a company is secondarily liable for intellectual property infringement, or that it is a joint infringer with another party. Any intellectual property claim against us, with or without merit, could be time consuming and expensive to settle or litigate and could divert the attention of our management. Litigation regarding intellectual property rights is inherently uncertain due to the complex issues involved, and we may not be successful in defending ourselves in such matters. In addition, some of our competitors have extensive portfolios of issued patents. Many potential litigants, including some of our competitors and patent holding companies, have the ability to dedicate substantial resources to enforcing their intellectual property rights. Any claims successfully brought against us could subject us to significant liability for damages and we may be required to stop using technology or other intellectual property alleged to be in violation of a third party’s rights in one or more jurisdictions where Etsy does business. We also might be required to seek a license for third-party intellectual property. Even if a license is available, we could be required to pay significant royalties or submit to unreasonable terms, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant time and expense. If we cannot license or develop technology for any allegedly infringing aspect of our business, we would be forced to limit our service and may be unable to compete effectively. Any of these results could harm our business.

We may be unable to protect our intellectual property adequately.

Our intellectual property is an essential asset of our business. To establish and protect our intellectual property rights, we rely on a combination of trade secret, copyright, trademark and, to a lesser extent, patent laws, as well as confidentiality procedures and contractual provisions. The efforts we have taken to protect our intellectual property may not be sufficient or effective. We generally do not elect to register our copyrights, relying instead on the laws protecting unregistered intellectual property, which may not be sufficient. We rely on both registered and unregistered trademarks, which may not always be comprehensive in scope. In addition, our copyrights and trademarks, whether or not registered, and patents may be held invalid or unenforceable if challenged, and may be of limited territorial reach. While we have obtained or applied for patent protection with respect to some of our intellectual property, we generally do not rely on patents as a principal means of protecting intellectual property. To the extent we do seek patent protection, any U.S. or other patents issued to us may not be sufficiently broad to protect our proprietary technologies.

In addition, we may not be effective in policing unauthorized use of our intellectual property and authorized uses may not have the intended effect. Even if we do detect violations, we may need to engage in litigation to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive and could divert our management’s attention. In addition, our efforts may be met with defenses and counterclaims challenging the validity and enforceability of our intellectual property rights or may result in a court determining that our intellectual property rights are unenforceable. The legal framework surrounding protection of intellectual property changes frequently throughout the world, and these changes may impact our ability to protect our intellectual property and defend against third party claims. If we are unable to cost-effectively protect our intellectual property rights, then our business could be harmed.

We are subject to the terms of open source licenses because our platform incorporates open source software.

The software powering our marketplace incorporates software covered by open source licenses. In addition, we regularly contribute source code to open source software projects and release internal software projects under open source licenses, and we anticipate doing so in the future. The terms of many open source licenses relied upon by Etsy and the internet and technology industries have been interpreted by only a few court decisions and there is a risk that the licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to operate our marketplace. Under certain open source licenses, if certain conditions were met, we could be required to publicly release aspects of the source code of our software or to make our software available under open source licenses. To avoid the public release of the affected portions of our source code, we could be required to expend substantial time and resources to re-engineer some or all of our software. In addition, use of open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Use of open source software may also present additional security risks because the public availability of such software may make it easier for hackers and other third parties to determine how to compromise our platform. Additionally, because any software source code we contribute to open source projects is publicly available, while we may benefit from the contributions of others, our ability to protect our intellectual property rights in such software source code may be limited or lost entirely, and we will be unable to prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage and, if not addressed, could adversely affect our business, financial performance and growth.

We may experience fluctuations in our tax obligations and effective tax rate.

We are subject to taxation in the United States and in numerous other jurisdictions. We record tax expense based on current tax payments and our estimates of future tax payments, which may include reserves for estimates of probable settlements of tax audits. At any one time, multiple tax years could be subject to audit by various taxing jurisdictions. As a result, we could be subject to higher than anticipated tax liabilities as well as ongoing variability in our quarterly tax rates as audits close and exposures are re-evaluated. Further, our effective tax rate in a given financial statement period may be adversely impacted by changes in tax laws, changes in the mix of revenue among different jurisdictions, changes to accounting rules and changes to our ownership or capital structure. Fluctuations in our tax obligations and effective tax rate could adversely affect our business.

In December 2017, the U.S. government enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (1) a permanent reduction to the corporate income tax rate, (2) a partial limitation on the deductibility of business interest expense, (3) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a quasi-territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (4) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected.

In January 2015, we implemented a revised corporate structure to more closely align our structure with our global operations and future expansion plans outside of the United States. Our new corporate structure changed how we use our intellectual property and implemented certain intercompany arrangements. We believe this may result in a reduction in our overall effective tax rate over the long term and other operational efficiencies; however, the tax laws of the jurisdictions in which we operate are subject to interpretation, and their application may depend on our ability to operate our business in a manner consistent with our corporate structure. Moreover, these tax laws are subject to change. Tax authorities may disagree with our position as to the tax treatment of our transfer of intangible assets or determine that the manner in which we operate our business does not achieve the intended tax consequences. If our new corporate structure does not achieve our expectations for any of these or other reasons, we may be subject to a higher overall effective tax rate and our business may be adversely affected.

We may be involved in litigation matters that are expensive and time consuming.

In addition to intellectual property claims, we may become involved in other litigation matters, including class action lawsuits. For example, as described further in " Note 12—Commitments and Contingencies — Legal Proceedings " in the Notes to Consolidated Financial Statements, a purported securities class action lawsuit was recently dismissed that named Etsy and certain of our officers and/or directors as defendants. Under certain circumstances, we have contractual and other legal obligations to indemnify and to incur legal expenses on behalf of current and former directors, officers, and underwriters. Any lawsuit to which we are a party, with or without merit, may result in an unfavorable judgment. We also may decide to settle lawsuits on unfavorable terms. Any such negative outcome could result in payments of substantial damages or fines, damage to our reputation or adverse changes to our offerings or business practices. Any of these results could adversely affect our business. In addition, defending claims is costly and can impose a significant burden on our management.

We may expand our business through acquisitions of other businesses, which may divert management's attention and/or prove to be unsuccessful.

We have acquired a number of other businesses in the past and may acquire additional businesses or technologies in the future. Acquisitions may divert management's time and focus from operating our business. Acquisitions also may require us to spend a substantial portion of our available cash, issue stock, incur debt or other liabilities, amortize expenses related to intangible assets or incur write-offs of goodwill or other assets. In addition, integrating an acquired business or technology is risky. Completed and future acquisitions may result in unforeseen operational difficulties and expenditures associated with:

- integrating new businesses and technologies into our infrastructure;
- consolidating operational and administrative functions;
- coordinating outreach to our community;
- maintaining morale and culture and retaining and integrating key employees;
- maintaining or developing controls, procedures and policies (including effective internal control over financial reporting and disclosure controls and procedures); and
- assuming liabilities related to the activities of the acquired business before and after the acquisition, including liabilities for violations of laws and regulations, commercial disputes, cyber attacks, taxes, and other matters.

Moreover, we may not benefit from our acquisitions as we expect, or in the time frame we expect. We also may issue additional equity securities in connection with an acquisition, which could cause dilution to our stockholders. Finally, acquisitions could be viewed negatively by analysts, investors or the members of our community.

If our insurance coverage is insufficient or our insurers are unable to meet their obligations, our insurance may not mitigate the risks facing our business.

Our insurance policies cover a number of risks and potential liabilities, such as general liability, property coverage, errors, and omissions liability, employment liability, business interruptions, data breaches, crime, product liability, and directors' and officers' liability. For certain types of business risk, we may not be able to, or may choose not to, acquire insurance. In addition, our insurance may not adequately mitigate the risks we face or we may have to pay high premiums and/or deductibles for the coverage we do obtain. Additionally, if any of our insurers becomes insolvent, it would be unable to pay any claims that we make.

The growth of our business may strain our management team and our operational and financial infrastructure.

We have experienced rapid growth in our business, in the number of Etsy sellers and the number of countries in which we have Etsy sellers and Etsy buyers, and we plan to continue to grow in the future, both in the United States and abroad. The growth of our business places significant demands on our management team and pressure to expand our operational and financial infrastructure. For example, we may need to continue to develop and improve our operational, financial, and management controls and enhance our reporting systems and procedures. If we do not manage our growth effectively, the increases in our operating expenses could outpace any increases in our revenue and our business could be harmed.

Operating as a public company requires us to incur substantial costs and requires substantial management attention.

As a public company, we incur substantial legal, accounting, and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act, the applicable requirements of the Sarbanes-Oxley Act of 2002, ("the Sarbanes-Oxley Act"), and the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations of the Securities and Exchange Commission ("SEC"). The rules and regulations of the Nasdaq Global Select Market ("Nasdaq"), also apply to us. As part of these requirements, we have established and maintained effective disclosure and financial controls and made changes to our corporate governance practices. Continued compliance with these requirements may increase our legal and financial compliance costs in the future and may make some activities more time-consuming. In addition, as described elsewhere in these Risk Factors, as a public company, we may be subject to stockholder activism, which can lead to additional substantial costs, distract management, and impact the manner in which we operate our business in ways we cannot currently anticipate.

If we are unable to maintain effective internal control over financial reporting, investors may lose confidence in the accuracy of our financial reports.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. It also requires our independent registered public accounting firm to attest to our evaluation of our internal controls over financial reporting. Although our management has determined, and our independent registered public accounting firm has attested, that our internal control over financial reporting was effective as of December 31, 2017 , we cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal control in the future.

If we have a material weakness in our internal control over financial reporting in the future, we may not detect errors on a timely basis. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act, or if we identify a material weakness in our internal control over financial reporting in the future, it could harm our operating results, cause us to fail to meet our SEC reporting obligations or Nasdaq listing requirements, adversely affect our reputation, cause our stock price to decline or result in inaccurate financial reporting or material misstatements in our annual or interim financial statements. Further, if there are material weaknesses or failures in our ability to meet any of the requirements related to the maintenance and reporting of our internal controls, such as Section 404 of the Sarbanes-Oxley Act, investors may lose confidence in the accuracy and completeness of our financial reports and that could cause the price of our common stock to decline. We could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional management attention and which could adversely affect our business.

In addition, our internal control over financial reporting will not prevent or detect all errors and fraud. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

We have a significant amount of debt and may incur additional debt in the future. We may not have sufficient cash flow from our business to pay our substantial debt when due.

Our ability to pay our debt when due or to refinance our indebtedness, including the 0% Convertible Senior Notes due 2023 we issued in March 2018 , (the "Notes"), depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. In addition, any required repurchase of the Notes for cash as a result of a fundamental change would lower our current cash on hand such that we would not have those funds available for us in our business. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

In addition, we and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. If, for example, we incur additional debt, secure existing or future debt or recapitalize our debt, these actions may diminish our ability to make payments on our substantial debt when due.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* , which has subsequently been codified as Accounting Standards Codification 470-20, *Debt with Conversion and Other Options* , ("ASC 470-20"). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our Consolidated Balance Sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

We may need additional capital, which may not be available to us on acceptable terms or at all.

We believe that our existing cash and cash equivalents and short-term investments, together with cash generated from operations will be enough to meet our anticipated cash needs for at least the next 12 months. However, we may require additional cash resources due to changes in business conditions or other developments, such as acquisitions or investments we may decide to pursue. We may seek to borrow funds under a credit facility or sell additional equity or debt securities. The sale of additional equity or convertible debt securities could result in dilution to our existing stockholders. Any debt financing that we may secure in the future could result in additional operating and financial covenants that would limit or restrict our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. It is also possible that financing may not be available to us in amounts or on terms acceptable to us, if at all.

Risks Related to Ownership of Our Common Stock

The price of our common stock has been and will likely continue to be volatile and declines in the price of common stock could subject us to litigation.

The price of our common stock has been and is likely to continue to be volatile. For example, since January 1, 2017, our common stock's daily closing price on Nasdaq has ranged from a low of $9.56 to a high of $52.85 through November 2, 2018 . The price of our common stock may fluctuate significantly for numerous reasons, many of which are beyond our control, such as:

- variations in our operating results and other financial and operational metrics, including the key financial and operating metrics disclosed in this Quarterly Report, as well as how those results and metrics compare to analyst and investor expectations;
- forward-looking statements related to our financial guidance or projections, our failure to meet or exceed our financial guidance or projections or changes in our financial guidance or projections;
- failure of analysts to initiate or maintain coverage of our company, changes in their estimates of our operating results or changes in recommendations by analysts that follow our common stock or a negative view of our financial guidance or projections and our failure to meet or exceed the estimates of such analysts;
- announcements of new services or enhancements, such as the launch of our new seller subscription packages in connection with our new pricing model, strategic alliances or significant agreements or other developments by us or our competitors;
- announcements by us or our competitors of mergers or acquisitions or rumors of such transactions involving us or our competitors;
- the amount and timing of our operating expenses and the success of any cost-savings actions we take;
- changes in our Board of Directors, management or other key personnel;
- disruptions in our marketplace due to hardware, software or network problems, security breaches or other issues;
- the strength of the global economy or the economy in the jurisdictions in which we operate, currency fluctuations, and market conditions in our industry and those affecting members of our community;
- the trading activity of our largest stockholders;

- the number of shares of our common stock that are available for public trading;
- litigation or other claims against us;
- stockholder activism;
- the performance of the equity markets in general and in our industry;
- the operating performance of other similar companies;
- changes in legal requirements relating to our business; and
- any other factors discussed in this Quarterly Report.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the price of our common stock could decline for reasons unrelated to our business, financial performance or growth. Stock prices of many internet and technology companies have historically been highly volatile. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities class action litigation. We have experienced securities class action lawsuits in the past and may experience more such litigation following future periods of volatility or declines in our stock price. Any securities litigation, could result in substantial costs and divert our management's attention and resources, which could adversely affect our business.

If analysts do not publish research about our business, or if they publish inaccurate or unfavorable research, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that analysts publish about our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, the price of our common stock would likely decline. If few analysts cover us, demand for our common stock could decrease and our common stock price and trading volume may decline. Similar results may occur if one or more of these analysts stop covering us in the future or fail to publish reports on us regularly.

We do not intend to pay dividends on our capital stock, so any returns will be limited to increases in the value of our common stock.

We have never declared or paid any cash dividends on our capital stock. We currently anticipate that we will retain future earnings for the operation and expansion of our business and do not anticipate declaring any dividends in the foreseeable future. In addition, our ability to pay cash dividends on our capital stock may be restricted by the terms of future financings. As a result, stockholders will not receive dividends or other distributions and may only receive a return on their investment if the trading price of our common stock increases.

Future sales and issuances of our common stock or rights to purchase common stock could result in additional dilution to our stockholders and could cause the price of our common stock to decline.

We may issue additional common stock, convertible securities, or other equity in the future. We also issue common stock to our employees, directors, and other service providers pursuant to our equity incentive plans. Such issuances could be dilutive to investors and could cause the price of our common stock to decline. New investors in such issuances could also receive rights senior to those of current stockholders.

Our stock repurchases may not achieve the desired objectives.

In November 2018, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to $200 million of our common stock. Previously, in November 2017, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to $100 million of our common stock, which we completed in the second quarter of 2018. There can be no assurance that these stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. In addition, there is no guarantee that our stock repurchases in the past or in the future will be able to successfully mitigate the dilutive effect of recent and future employee stock option exercises and restricted stock vesting.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, could limit attempts to make changes in our management and could depress the price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change in control of our company or limiting changes in our management. Among other things, these provisions:

- provide for a classified board of directors so that not all members of our Board of Directors are elected at one time;
- permit our Board of Directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that directors may only be removed for cause;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of "blank check" preferred stock that our Board of Directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which means all stockholder actions must be taken at a meeting of our stockholders;
- provide that our Board of Directors is expressly authorized to amend or repeal any provision of our bylaws;
- restrict the forum for certain litigation against us to Delaware; and
- require advance notice for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may delay or prevent attempts by our stockholders to replace members of our management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, Section 203 of the Delaware General Corporation Law ("DGCL") may delay or prevent a change in control of our company. Section 203 of the DGCL imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock. Anti-takeover provisions could depress the price of our common stock by acting to delay or prevent a change in control of our company.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the DGCL, our certificate of incorporation or our bylaws or any action asserting a claim against us that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees and may discourage these types of lawsuits. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities.

The table below provides information with respect to repurchases of shares of our common stock during the three months ended September 30, 2018 .

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in thousands)
July 1 - 31, 2018 (1)	137,140	$ 42.19	—	$ —
August 1 - 31, 2018	—	—	—	—
September 1 - 30, 2018 (1)	68,829	50.16	—	—
Total	205,969	$ 44.85	—	$ —

(1) Shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1*	Letter Agreement between Linda Kozlowski and Etsy, Inc., effective as of September 11, 2018					X
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
32.1†	Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
32.2†	Certification of Chief Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

* Indicates a management contract or compensatory plan.
† These certifications are not deemed to be filed with the SEC and are not to be incorporated by reference into any filing of Etsy, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ETSY, INC.

Date: November 6, 2018

/s/ Rachel Glaser

Rachel Glaser
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 10.1

Etsy

Sept. 10, 2018

Dear Linda:

This letter (the "Agreement") confirms the agreement between you and Etsy, Inc. (the "Company") regarding the transition of your duties and responsibilities and resignation.

1. **Last Date of Employment.** Your last day of employment with the Company will be January 2, 2019 or such earlier date as your employment ends under Section 4 of this Agreement (the "Effective Date"). As of the Effective Date, you will and hereby resign from the office of Chief Operating Officer ("COO") of the Company (and from any and all other offices you hold with Company affiliates). From the date of this Agreement through the Effective Date (such period being referred to as the "Retention Period"), you will continue to be employed by the Company in accordance with Section 2, below.

2. **Retention Period.** You agree that, during the Retention Period, you will continue to perform your duties and responsibilities in a professional manner; perform such duties and responsibilities as may be reasonably assigned to you and consistent with your position as the COO by the Company's Chief Executive Officer ("CEO") and/or Board of Directors ("Board"); and cooperate in the effort to effect an orderly, smooth, and efficient transition of your duties and responsibilities to such individual(s) as the Company may direct.

3. **Retention Benefits** . Subject to Sections 4 and 8, below, as an inducement for you to continue your employment with the Company during the Retention Period; in exchange for your signing this Agreement and not revoking your acceptance of this Agreement; your compliance with your obligations under this Agreement (including Section 2, above); and your signing (no earlier than the Effective Date) and not revoking the Supplemental Release, a copy of which is attached as **Exhibit A** to this Agreement (the "Supplemental Release"), the Company will provide you with the following benefits:

(a) Continuation of your base salary at an annualized rate of $350,000 (but not your employment) for a period of six (6) months after the Effective Date, which base salary shall be paid to you in accordance with the Company's normal payroll practices, commencing within thirty (30) days following the Effective Date, provided that the initial payment will include a catch-up payment to cover the period between the Effective Date and the date of such first payment;

(b) Reimbursement of your COBRA premiums for the health coverage you were covered under the Company's plans immediately prior to the Effective Date for

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the six (6) month period after the Effective Date, which amounts shall be paid to you on the first Company payroll date of each month that immediately follows the date on which such monthly premium is due, commencing within thirty (30) days following the Effective Date, provided that the initial payment will include a catch-up payment to cover the period between the Effective Date and the date of such first payment;

(c) An additional lump sum payment to you of $262,500, payable within 60 days of the Effective Date.

(d) Full (*i.e.* , 100%) acceleration, on the Effective Date, of the stock options and restricted stock units ("RSUs") awarded to you on June 1, 2016, such that all such options will be fully vested and exercisable, and all RSUs will be fully vested, on and as of the Effective Date.

(e) Full (*i.e.* , 100%) acceleration, on the Effective Date, of the stock options and RSUs awarded to you on March 15, 2017, such that all such options will be fully vested and exercisable, and all RSUs will be fully vested, on and as of the Effective Date.

Except for your salary through the Effective Date, any accrued but unused vacation through the Effective Date, reimbursement of expenses you incur prior to the Effective Date, and your entitlement to benefits under any Company benefit, stock, equity, and long-term incentive plan which are vested, and any other payments or benefits required to be paid or provided by law, you agree that you will not be entitled to any additional compensation from the Company, including any salary, bonus or incentive compensation, leave, severance or separation pay, or other remuneration or benefits of any kind, other than as set forth in this Agreement or in a subsequent written agreement between you and the Company.

You agree that if you violate any of your obligations under this Agreement, you will no longer be entitled to receive any benefits under Sections 3(a) through (e), above.

4. **Termination or Resignation Prior to January 2, 2019.** Notwithstanding anything else in this Agreement, the Company may terminate your employment and you may resign your employment at any time prior to January 2, 2019, in which case you will receive only the benefits described in this Section 4. If you resign your employment without Good Reason (as defined below) or if the Company terminates your employment for Cause (as defined below) prior to January 2, 2019, you will receive only your base salary through the date of termination or resignation, any accrued, but unused vacation, any vested benefits under the Company's benefit, stock, equity, and long-term incentive plans, reimbursement of duly-documented business expenses, and any other payments or benefits required to be paid or provided by law or Company policy ("Accrued Benefits"). If the Company terminates your employment without Cause or if you resign for Good Reason prior to January 2, 2019, you will receive the Accrued Benefits, together with the additional benefits set forth in Section 3(a) through (e), above,

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provided (i) (as to the latter) that you sign (no earlier than the Effective Date) and do not revoke your acceptance of the Supplemental Release and (ii) the base salary continuation and COBRA reimbursement periods described in Sections 3(a) and (b), above, will be extended so that you will have base salary continuation and COBRA reimbursement from the earlier termination date to June 30, 2019 (i.e., six months, plus the period between the earlier termination date and January 2, 2019).

5. For the purposes of this Agreement, "Cause" shall have the meaning set forth in the Etsy, Inc. Executive Severance Plan

6. For the purposes of this Agreement, "Good Reason" shall mean that one of the following occurs without your written consent: (a) a material diminution in your compensation (other than as contemplated in this Agreement); (b) the relocation of your principal place of employment to a location more than fifty (50) miles from its current location, or (c) a material breach of this Agreement; provided, that in order to terminate on account of Good Reason, you must provide the Company notice within thirty (30) days of the initial occurrence of the event constituting Good Reason and the Company will have a period of thirty (30) days to cure such event. If not cured, you may terminate your employment within sixty (60) days following the end of the cure period.

7. **Equity Grants.** Your stock options and restricted stock units will vest through the Effective Date in accordance with the terms and conditions of the applicable equity plan(s) and award agreement(s) pursuant to which they were granted. Subject to the acceleration described in Section 3(d) and 3(e) of this Agreement, above, any options and restricted stock units that are unvested as of the Effective Date will be forfeited in accordance with those plan(s) and agreement(s). The award agreement(s) between you and the Company evidencing your equity awards pursuant to Etsy, Inc. 2015 Equity Incentive Plan will remain in full force and effect and you agree to remain bound by them. You also acknowledge and agree that you will remain bound by the terms of the Company's Insider Trading Policy.

8. **Release of All Claims** . In consideration for receiving the retention benefits described in Section 3, above, and to the fullest extent permitted by applicable law, you hereby waive, release and promise never to assert any claims or causes of action, whether or not now known, against the Company or its predecessors, successors or past or present subsidiaries, stockholders, directors, officers, employees, consultants, attorneys, agents, assigns and employee benefit plans with respect to any matter, including (without limitation) any matter related to your employment with the Company or the termination of that employment, claims for attorneys' fees or costs, claims of wrongful discharge, constructive discharge, emotional distress, defamation, invasion of privacy, fraud, breach of contract or breach of the covenant of good faith and fair dealing, claims under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act, the New York State Human Rights Law, the New York Labor Law, and the New York City Human Rights Law; claims under any and all other federal, state, and local statutes, regulations, and laws of any type; and claims for any compensation or benefits not specifically referenced in this Agreement, including claims under any Company incentive plan, bonus plan, or severance plan). Execution of this

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Agreement does not bar (i) any claim that arises hereafter, including (without limitation) a claim for breach of this Agreement, (ii) any rights you may already have to be indemnified and/or advanced or reimbursed expenses pursuant to any corporate document of the Company or its affiliates or applicable law, including the Indemnification Agreement dated January 27, 2017, or your right to be covered under any applicable directors' and officers' liability insurance policies, (iii) any rights to the retention benefits set forth in this Agreement, and (iv) any rights to vested equity awards and any rights under any benefit plans of the Company under which you have a vested benefit and for which amounts are payable after the Effective Date.

9. **No Admission** . Nothing contained in this Agreement will constitute or be treated as an admission by you or the Company of liability, any wrongdoing or any violation of law.

10. **Other Agreements** . At all times in the future, you will remain bound by the Proprietary Information and Inventions Agreement (the "PIIA") with the Company you signed on April 6, 2016, a copy of which is attached as Exhibit B.

In addition, you will remain eligible for certain benefits under the Etsy, Inc. Executive Severance Plan ("Severance Plan") in the event that the Company experiences a Change in Control (as defined in the Severance Plan), provided , however , that

(i) the definition of "Qualifying CIC Termination" is hereby amended and shall mean (as applied to you) a termination of your employment under this Agreement entitling you to the benefits under Section 3 of this Agreement that occurs within (A) the three (3) months before a Change in Control or (B) after a Change in Control but prior to January 1, 2019; and

(ii) in the event you experience a Qualifying CIC Termination (as defined in the preceding sub-paragraph), you will receive the benefits described in Section 3 of this Agreement, except that any amounts payable to you under the Severance Plan will be offset by any amounts paid to you under Sections 3(a) and (b) of this Agreement, and any amounts payable to you under Sections 3(a) and (b) of this Agreement will be offset by any amounts paid to you under the Severance Plan.

In other words, and for the avoidance of doubt, in the event you are eligible under the terms of this Agreement to receive benefits under both the Severance Plan and Sections 3(a) and (b) of this Agreement, you will receive the greater of the benefits under the Severance Plan or Sections 3(a) and (b) of this Agreement, but you will not receive benefits under both the Severance Plan and Sections 3(a) and (b) of this Agreement. For purposes of clarity, you will also receive the benefits described in Sections 3(c) through 3(e) of this Agreement in the event you experience a Qualifying CIC Termination (as defined in sub-paragraph (i) of this Section.

Except as expressly provided in this Agreement, this Agreement renders null and void all prior agreements between you and the Company and constitutes the entire agreement between you and the Company regarding the subject matter of this Agreement. This Agreement

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may be modified only in a written document signed by you and a duly authorized officer of the Company.

11. **Company Property** . You represent that on or before the Effective Date, you will return to the Company all property that belongs to the Company, including (without limitation) copies of documents that belong to the Company and files stored on your computer(s) that contain information belonging to the Company.

12. **Confidentiality of Agreement** . You agree that, until such time as this Agreement is disclosed publicly by the Company, you will not disclose to others the existence or terms of this Agreement, except that you may disclose such information to your attorney, or financial advisors (provided such individuals agree that they will not disclose to others the existence or terms of this Agreement).

13. **No Disparagement** . You agree that you will not make any disparaging statements (orally or in writing) about the Company or its products, services, strategy, legal or business practices, past venture capital investors, known institutional investors, or current or past (as of the date of this Agreement) directors, officers, and known employees who served during your tenure at Etsy. The Company will instruct current members of the Etsy Executive Team and Board to refrain from making any disparaging statements about you.

14. **Cooperation** . You agree that you will provide reasonable cooperation with and assistance to the Company in connection with the defense or prosecution of any claim that may be made against or by the Company, or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company, including any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including testifying in any proceeding to the extent such claims, investigations or proceedings are related to services performed or required to be performed by you, knowledge possessed by you, or any act or omission by you. The Company will reimburse you for reasonable related expenses in connection with such cooperation.

15. **Preservation of Rights** . Nothing in Sections 6, 10, 11, or 12, above, or otherwise in this Agreement, shall be construed to prevent you from (a) reporting violations of United States or other law or regulations to or (b) participating in an investigation conducted by, or providing truthful information to any government, regulatory, or self-regulatory agency in accordance with law, including but not limited to the Department of Justice, the Securities and Exchange Commission ("SEC"), the U.S. Equal Employment Opportunity Commission ("EEOC"), the Congress, and any agency Inspector General, or from making other disclosures that are protected under the whistleblower or other provisions of any applicable United States or other law or regulation. You do not need the prior authorization of the Company to make any such reports or disclosures and you are not required to notify the Company that you have made such reports or disclosures. Nevertheless, you acknowledge that you cannot recover any monetary benefit, damages, or equitable relief with respect to any of the claims released and waived in this Agreement through or from any charge filed by you with a fair employment

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practices agency such as the EEOC or any action commenced by a third party. However, nothing in this Agreement prevents you from obtaining a monetary award from the SEC.

16. **Indemnification** . The Indemnification Agreement dated as of January 27, 2017 shall remain in effect in accordance with its terms.

17. **Taxes** . All payments under this Agreement will be subject to all deductions required by law, including applicable taxes and withholdings. In accordance with its normal payroll practices, the Company will mail to your home address in the Company's records any tax reporting forms it prepares in accordance with any payments made to you, at such time as those forms are prepared and/or filed. You will be solely responsible and liable for any taxes owed on any payments or benefits made or provided to you under this Agreement, except for taxes the Company believes it has an obligation to withhold from any such payments or benefits.

18. **Section 409A** . The intent of the parties is that payments and benefits under this Agreement comply with, or be exempt from, Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance with Code Section 409A; provided , that the Company does not guarantee to you any particular tax treatment with respect to this Agreement and any payments hereunder.

For purposes of Code Section 409A, each payment is a separate payment and your right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten calendar days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company. In no event may you, directly or indirectly, designate the calendar year of any payment to be made under this Agreement that is considered non-qualified deferred compensation.

With regard to any provision in this Agreement that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; provided, that this clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Internal Revenue Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (iii) such payments shall be made on or before the last day of your taxable year following the taxable year in which the expense was incurred.

Notwithstanding any other provision hereof, if you are, as of the Effective Date, a "specified employee" for purposes of Treas. Reg. ß 1.409A-1(i), then any amount payable to you pursuant to this Agreement that is neither a short-term deferral within the meaning of Treas. Reg. ß 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. ß

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1.409A-1(b)(9)(iii)(A) will not be paid before the date that is six months after the date of termination, or if earlier, the date of your death. Any payments to which you would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to you on the first day of the seventh month following such date of termination, or if earlier, within thirty (30) calendar days of your death to your beneficiaries.

19. **Severability** . If any term of this Agreement is held to be invalid, void or unenforceable, the remainder of this Agreement will remain in full force and effect and will in no way be affected, and the parties will use their best efforts to find an alternate way to achieve the same result.

20. **Choice of Law** . This Agreement will be construed and interpreted in accordance with the laws of the State of New York (other than their choice-of-law provisions).

21. **Execution** . This Agreement may be executed in counterparts, each of which will be considered an original, but all of which together will constitute one agreement. Execution of a facsimile copy will have the same force and effect as execution of an original, and a facsimile signature will be deemed an original and valid signature.

22. **Effective Date and Revocation.** You agree by your signature below that you had, and that the Company gave you, at least twenty-one (21) days to review and consider this Agreement before signing it, and that such period was sufficient for you to fully and completely consider all of its terms. The Company hereby advises you to discuss this Agreement with your own attorney (at your own expense) during this period if you wish to do so. You may accept this Agreement by delivering a copy of the Agreement signed by you to me within twenty-one (21) days from the day you receive the Agreement. You may revoke your acceptance of the Agreement for a period of seven (7) days after signing the Agreement by delivering written notification to me within that seven-day period. If you do not revoke your acceptance of the Agreement, it will be effective on the eighth (8^{th}) day after you sign it. If you revoke your acceptance of this Agreement, you will not be entitled to the benefits listed in Section 3, above. You agree that you have carefully read this Agreement, fully understand what it means, and are entering into it voluntarily.
Please indicate your agreement with the above terms by signing below.

Very truly yours,

/s/ Josh Silverman

Josh Silverman
CEO & President
Etsy, Inc.

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I agree to the terms of this Agreement.

/s/ Linda Kozlowski

Dated: 9/11/18

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EXHIBIT A

SUPPLEMENTAL RELEASE

You and Etsy, Inc. (the "Company") hereby enter into this Supplemental Release (the "Supplemental Release"), which will become effective on _____.

1. **Last Date of Employment.** Your last day of employment with the Company ended on __________________ ("Effective Date").

2. **Release of All Claims** . In consideration for receiving the retention benefits described in Section 3 of the letter agreement between you and the Company dated as of _______________ (the "Agreement'), and to the fullest extent permitted by applicable law, you hereby waive, release and promise never to assert any claims or causes of action, whether or not now known, against the Company or its predecessors, successors or past or present subsidiaries, stockholders, directors, officers, employees, consultants, attorneys, agents, assigns and employee benefit plans with respect to any matter, including (without limitation) any matter related to your employment with the Company or the termination of that employment, claims for attorneys' fees or costs, claims of wrongful discharge, constructive discharge, emotional distress, defamation, invasion of privacy, fraud, breach of contract or breach of the covenant of good faith and fair dealing, claims under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act, the New York State Human Rights Law, the New York Labor Law, and the New York City Human Rights Law; claims under any and all other federal, state, and local statutes, regulations, and laws of any type; and claims for any compensation or benefits not specifically referenced in the Agreement, including claims under any Company incentive plan, bonus plan, or severance plan). Execution of this Supplemental Release does not bar (i) any claim that arises hereafter, including (without limitation) a claim for breach of this Supplemental Release, (ii) any rights you may already have to be indemnified and/or advanced or reimbursed expenses pursuant to any corporate document of the Company or its affiliates or applicable law, including the Indemnification Agreement dated January 27, 2017, or your right to be covered under any applicable directors' and officers' liability insurance policies, (iii) any rights to the retention benefits set forth in the Agreement and which are owed or payable after the date of this Supplemental Release, and (iv) any rights to vested equity awards and any rights under any benefit plans of the Company under which you have a vested benefit and for which amounts are payable after the Effective Date.

3. **No Admission** . Nothing contained in this Supplemental Release will constitute or be treated as an admission by you or the Company of liability, any wrongdoing or any violation of law.

4. **Other Agreements** . Except as expressly provided in the Agreement and this Supplemental Release, the Agreement and this Supplemental Release render null and void all prior agreements between you and the Company and constitutes the entire agreement between you and the Company regarding the subject matter of the Agreement and this Supplemental Release. This Supplemental Release may be modified only in a written document signed by you and a duly authorized officer of the Company.

5. **Severability** . If any term of this Supplemental Release is held to be invalid, void or unenforceable, the remainder of this Supplemental Release will remain in full force and effect and will in no way be affected, and the parties will use their best efforts to find an alternate way to achieve the same result.

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6. **Choice of Law** . This Supplemental Release will be construed and interpreted in accordance with the laws of the State of New York (other than their choice-of-law provisions).

7. **Execution** . This Supplemental Release may be executed in counterparts, each of which will be considered an original, but all of which together will constitute one agreement. Execution of a facsimile copy will have the same force and effect as execution of an original, and a facsimile signature will be deemed an original and valid signature.

8. **Effective Date and Revocation.** You agree by your signature below that you had, and that the Company gave you, at least twenty-one (21) days to review and consider this Supplemental Release before signing it, and that such period was sufficient for you to fully and completely consider all of its terms. The Company hereby advises you to discuss this Supplemental Release with your own attorney (at your own expense) during this period if you wish to do so. You may accept this Supplemental Release by delivering a copy of this Supplemental Release signed by you to me within twenty-one (21) days of the Effective Date. You may revoke your acceptance of this Supplemental Release for a period of seven (7) days after signing the Supplemental Release by delivering written notification to me within that seven-day period. If you do not revoke your acceptance of this Supplemental Release, it will be effective on the eighth (8^{th}) day after you sign it. If you revoke your acceptance of this Supplemental Release, you will not be entitled to the benefits listed in Section 3 of the Agreement. You agree that you have carefully read this Supplemental Release, fully understand what it means, and are entering into it voluntarily.

Please indicate your agreement with the above terms by signing below.

Very truly yours,

____

Josh Silverman
CEO & President
Etsy, Inc.

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I agree to the terms of this Supplemental Release.

____
Linda Kozlowski

Dated:

EXHIBIT B

PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT

EXHIBIT 31.1

CERTIFICATION

I, Josh Silverman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Etsy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Josh Silverman____________
Josh Silverman
President and Chief Executive Officer (Principal Executive Officer)

Date: November 6, 2018

EXHIBIT 31.2

CERTIFICATION

I, Rachel Glaser, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Etsy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Rachel Glaser________
Rachel Glaser
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: November 6, 2018

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Josh Silverman, certify that the Quarterly Report of Etsy, Inc. on Form 10-Q for the quarterly period ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Etsy, Inc.

/s/ Josh Silverman____________
Josh Silverman
President and Chief Executive Officer (Principal Executive Officer)

Date: November 6, 2018

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Rachel Glaser, certify that the Quarterly Report of Etsy, Inc. on Form 10-Q for the quarterly period ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Etsy, Inc.

/s/ Rachel Glaser________
Rachel Glaser
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: November 6, 2018