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 March 31, 2021

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock $0.001 par value per share	ETSY	The Nasdaq Global Select Market

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 April 30, 2021 was 127,102,598.

Etsy

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Part I - Financial Information

Part II - Other Information

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," "mobile GMS," and "currency-neutral GMS growth."

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 opportunity; the impact of our “Right to Win” strategy and levers for growth, marketing, and product initiatives and investments on our business and operating results, including future gross merchandise sales (“GMS”) and revenue growth; the impact of our Offsite Ads offering on our future financial performance; our plans for acquisitions and strategic investments and their impact on our growth and results of operations; our intended environmental, social, and ecological impacts; and the uncertain impacts that the COVID-19 pandemic or its abatement may have on our business, strategy, operating results, key metrics, financial condition, profitability, and cash flows, on changes in overall levels of consumer spending, on e-commerce generally, and on volatility in the global economy. Forward-looking statements include all statements that are not historical facts. In some cases, forward-looking statements can be identified by terms such as “aim,” “anticipate,” “believe,” “could,” “enable,” “estimate,” “expect,” “goal,” “intend,” “may,” “plan,” “potential,” “project,” “seek,” “should,” “target,” “will,” “would” or similar expressions and derivative forms and/or 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 Part II, Item 1A, “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. In addition, the global economic climate and additional or unforeseen effects from the COVID-19 pandemic may amplify many of these risks.

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.

Summary Risk Factors

Our business is subject to numerous risks. The following summary highlights some of the risks we are exposed to in the normal course of our business activities. This summary is not complete and the risks summarized below are not the only risks we face. You should review and consider carefully the risks and uncertainties described in more detail in the “Risk Factors” section of this Quarterly Report which includes a more complete discussion of the risks summarized below as well as a discussion of other risks related to our business and an investment in our common stock.

Financial Performance and Operational Risks Related to Our Business

- We have experienced rapid growth, and we may not have the infrastructure, human resources, or operational resources to sustain continued growth at our recent pace.
- The COVID-19 pandemic is unprecedented and has impacted, and may continue to impact, our GMS, and could impact our results of operations in numerous ways that remain volatile and unpredictable.
- Our quarterly operating results may fluctuate, which could cause our stock price to decline. The price of our common stock has been and will likely continue to be volatile and declines in the price of our common stock could subject us to litigation.
- We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which could cause our stock price to decline.
- Our business could suffer if we experience a technology disruption that results in a loss of information, if personal data or sensitive information about users or employees is misused or disclosed, or if we or our third-party providers are unable to protect against technology vulnerabilities, service interruptions, security breaches, or other cyber incidents.

- The trustworthiness of our marketplaces and the connections within our community are important to our success. Our business, financial performance, and growth depend on our ability to attract and retain an active and engaged community of buyers and sellers. If we are unable to retain our existing buyers and sellers and activate new ones, our financial performance could decline.
- Our business depends on continued and unimpeded access to third party services, platforms, and infrastructure that we rely upon to maintain and scale our platform.
- We have experienced rapid domestic and global growth, and we may be subject to expanded and potentially uninsured risk, making it more difficult for us to maintain profitability in the future.
- Our business could be adversely affected by economic downturns, natural disasters, political crises, geopolitical changes or other macroeconomic conditions which have in the past and may in the future negatively impact our business and financial performance.
- Our ability to attract and hire a diverse pipeline of talent and retain key employees is important to our success. If we experience significant attrition or turnover it could impact our ability to grow our business.

Strategic Risks Related to Our Business and Industry

- We face intense competition and may not be able to compete effectively.
- If we are not able to keep pace with technological changes, and enhance current and develop new offerings to respond to the changing needs of sellers and buyers, our business may be harmed.
- If the widely adopted mobile, social, search and advertising solutions that we, our sellers and our buyers rely on as part of our key offering are no longer available or effective, or if access to these major platforms is limited, the use of our marketplaces could decline.
- If we do not demonstrate progress against our Impact strategy or if our Impact strategy is not perceived to be adequate, our reputation could be harmed. We could also damage our reputation and the value of our brand if we fail to demonstrate that our commitment to our Impact strategy enhances our overall financial performance.
- Expanding our operations outside of the United States is part of our strategy, and the growth of our business could be harmed if our international expansion efforts do not succeed.
- We may expand our business through acquisitions of other businesses or assets or strategic partnerships and investments, which may divert management’s attention and/or prove to be unsuccessful.
- We have a significant amount of convertible debt that may be settled in cash and may incur additional debt in the future.

Regulatory, Compliance, and Legal Risks

- Compliance and protection under evolving global legal and regulatory requirements including privacy and data protection laws, tax laws, product liability laws, antitrust laws, intellectual property and counterfeiting regulations, may materially impact our time, resources, and ability to grow our business.
- We may be involved in litigation and regulatory matters that are expensive and time consuming and that may require changes to our strategy, the features of our platform and how our business operates.
- We may be subject to intellectual property or other claims, which, even if untrue, could damage our brand, require us to pay significant damages, and could limit our ability to use certain technologies or business strategies in the future.

Other Risks

- Future sales and issuances of our common stock, or rights to purchase common stock, including upon conversion of our convertible notes, could result in additional dilution to our stockholders and could cause the price of our common stock to decline.

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 March 31, 2021	As of December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,163,678	$ 1,244,099
Short-term investments	502,569	425,119
Accounts receivable, net of expected credit losses of $10,811 and $9,757 as of March 31, 2021 and December 31, 2020, respectively	22,991	22,605
Prepaid and other current assets	46,277	56,152
Funds receivable and seller accounts	158,104	146,806
Total current assets	1,893,619	1,894,781
Restricted cash	5,341	5,341
Property and equipment, net of accumulated depreciation and amortization of $156,287 and $158,771 as of March 31, 2021 and December 31, 2020, respectively	107,960	112,495
Goodwill	139,745	140,810
Intangible assets, net of accumulated amortization of $29,132 and $25,705 as of March 31, 2021 and December 31, 2020, respectively	182,312	187,449
Deferred tax assets	7,723	115
Long-term investments	137,655	39,094
Other assets	23,056	24,404
Total assets	$ 2,497,411	$ 2,404,489
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,386	$ 40,883
Accrued expenses	218,157	232,352
Finance lease obligations—current	8,639	8,537
Funds payable and amounts due to sellers	158,104	146,806
Deferred revenue	12,260	11,264
Other current liabilities	13,499	14,822
Total current liabilities	427,045	454,664
Finance lease obligations—net of current portion	43,042	44,979
Deferred tax liabilities	33	58,481
Long-term debt, net	1,302,345	1,062,299
Other liabilities	41,172	41,642
Total liabilities	1,813,637	1,662,065
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock ($0.001 par value, 1,400,000,000 shares authorized as of March 31, 2021 and December 31, 2020; 126,785,568 and 125,835,931 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively)	127	126
Preferred stock ($0.001 par value, 25,000,000 shares authorized as of March 31, 2021 and December 31, 2020)	—	—
Additional paid-in capital	664,240	883,166
Retained earnings (accumulated deficit)	24,775	(146,819)
Accumulated other comprehensive (loss) income	(5,368)	5,951
Total stockholders' equity	683,774	742,424
Total liabilities and stockholders' equity	$ 2,497,411	$ 2,404,489

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 March 31, 2021	Three Months Ended March 31, 2020
Revenue	$ 550,646	$ 228,055
Cost of revenue	142,917	82,416
Gross profit	407,729	145,639
Operating expenses:		
Marketing	151,204	48,505
Product development	53,706	37,782
General and administrative	52,182	33,987
Total operating expenses	257,092	120,274
Income from operations	150,637	25,365
Other income (expense):		
Interest expense	(1,685)	(9,967)
Interest and other income	979	3,613
Foreign exchange gain (loss)	7,797	(9,318)
Total other income (expense)	7,091	(15,672)
Income before income taxes	157,728	9,693
(Provision) benefit for income taxes	(13,962)	2,829
Net income	$ 143,766	$ 12,522
Net income per share attributable to common stockholders:		
Basic	$ 1.14	$ 0.11
Diluted	$ 1.00	$ 0.10
Weighted-average common shares outstanding:		
Basic	126,214,735	118,138,186
Diluted	144,714,686	123,119,053

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

Etsy, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2021	**2020**
Net income	$ 143,766	$ 12,522
Other comprehensive loss:		
Cumulative translation adjustment	(11,064)	(2,671)
Unrealized (losses) gains on marketable securities, net of tax (benefit) expense of $(80) and $205, respectively	(255)	671
Total other comprehensive loss	(11,319)	(2,000)
Comprehensive income	$ 132,447	$ 10,522

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

Etsy, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In thousands, except share amounts)

	Three Months Ended March 31, 2021					
	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance as of December 31, 2020	125,835,931	$ 126	$ 883,166	$ (146,819)	$ 5,951	$ 742,424
Cumulative effect of adoption of accounting standard changes	—	—	(228,738)	27,828	—	(200,910)
Stock-based compensation	—	—	20,976	—	—	20,976
Exercise of vested options	217,293	—	3,930	—	—	3,930
Settlement of convertible senior notes, net of taxes	625,022	1	(292)	—	—	(291)
Vesting of restricted stock units, net of shares withheld	107,322	—	(14,802)	—	—	(14,802)
Other comprehensive loss	—	—	—	—	(11,319)	(11,319)
Net income	—	—	—	143,766	—	143,766
Balance as of March 31, 2021	126,785,568	$ 127	$ 664,240	$ 24,775	$ (5,368)	$ 683,774

	Three Months Ended March 31, 2020					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance as of December 31, 2019	118,342,772	$ 119	$ 642,628	$ (227,414)	$ (8,699)	$ 406,634
Stock-based compensation	—	—	13,985	—	—	13,985
Exercise of vested options	447,886	—	4,896	—	—	4,896
Vesting of restricted stock units, net of shares withheld	129,230	—	(4,198)	—	—	(4,198)
Stock repurchase	(543,106)	(1)	—	(24,991)	—	(24,992)
Other comprehensive loss	—	—	—	—	(2,000)	(2,000)
Net income	—	—	—	12,522	—	12,522
Balance as of March 31, 2020	118,376,782	$ 118	$ 657,311	$ (239,883)	$ (10,699)	$ 406,847

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

Etsy, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash flows from operating activities		
Net income	$ 143,766	$ 12,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	20,351	13,811
Depreciation and amortization expense	13,080	15,163
Provision for expected credit losses	4,601	3,684
Foreign exchange (gain) loss	(4,395)	8,157
Non-cash interest expense	271	8,570
Deferred benefit for income taxes	(3,068)	(2,829)
Other non-cash expense, net	1,184	530
Changes in operating assets and liabilities:		
Current assets	(11,580)	(2,784)
Non-current assets	1,231	915
Current liabilities	(16,597)	(27,235)
Non-current liabilities	(379)	(840)
Net cash provided by operating activities	148,465	29,664
Cash flows from investing activities		
Purchases of property and equipment	(526)	(567)
Development of internal-use software	(3,226)	(1,261)
Purchases of marketable securities	(268,972)	(101,501)
Sales and maturities of marketable securities	91,714	109,422
Net cash (used in) provided by investing activities	(181,010)	6,093
Cash flows from financing activities		
Payment of tax obligations on vested equity awards	(14,802)	(4,198)
Repurchase of stock	—	(24,992)
Proceeds from exercise of stock options	3,930	4,896
Payment of debt issuance costs	(25)	(14)
Settlement of convertible senior notes	(27,319)	—
Payments on finance lease obligations	(2,421)	(2,566)
Other financing, net	1,259	(5,804)
Net cash used in financing activities	(39,378)	(32,678)
Effect of exchange rate changes on cash	(8,498)	(4,018)
Net decrease in cash, cash equivalents, and restricted cash	(80,421)	(939)
Cash, cash equivalents, and restricted cash at beginning of period	1,249,440	448,634
Cash, cash equivalents, and restricted cash at end of period	$ 1,169,019	$ 447,695

Etsy, Inc.

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

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown above:

	Three Months Ended March 31,	
	2021	2020
Beginning balance:		
Cash and cash equivalents	$ 1,244,099	$ 443,293
Restricted cash	5,341	5,341
Total cash and cash equivalents, and restricted cash	$ 1,249,440	$ 448,634
Ending balance:		
Cash and cash equivalents	$ 1,163,678	$ 442,354
Restricted cash	5,341	5,341
Total cash and cash equivalents, and restricted cash	$ 1,169,019	$ 447,695

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

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

Description of Business

Etsy, Inc. (the “Company” or “Etsy”) operates two-sided online marketplaces that connect millions of passionate and creative buyers and sellers. Our primary marketplace, Etsy.com, is the global marketplace for unique and creative goods. The Company generates revenue primarily from transaction, listing, and payments processing fees, and on-site advertising and shipping label services.

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.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). The Company has condensed or omitted certain information and notes normally included in complete annual financial statements prepared in accordance with GAAP. These unaudited interim consolidated financial statements should therefore be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K filed with the SEC on February 26, 2021 (the “Annual Report”). In the opinion of management, all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results for the periods presented have been reflected in the consolidated financial statements. The results of operations of any interim period are not necessarily indicative of the results of operations for the full annual period or any future period due to seasonal and other factors.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates and judgments. The accounting estimates that require management’s most subjective judgments include: stock-based compensation; income taxes, including the estimate of the annual effective tax rate at interim periods and evaluation of uncertain tax positions; and valuation of goodwill and intangible assets. As of March 31, 2021, the effects of the ongoing COVID-19 pandemic on our business, results of operations, and financial condition continue to evolve. As a result, many of the Company’s estimates and judgments required increased judgment and carry a higher degree of variability and volatility. As additional information becomes available, the Company’s estimates may change materially in future periods.

Stock-Based Compensation

Service based stock options, service based restricted stock units (“RSUs”), and performance based restricted stock units (“PBRSUs”), are awarded to employees, officers, and members of the Company’s Board of Directors. The PBRSUs include financial performance based restricted stock units (“Financial PBRSUs”) and total shareholder return performance based restricted stock units (“TSR PBRSUs”), both of which have performance and service vesting requirements. The Company recognizes forfeitures as they occur.

The fair value of the stock options and RSUs are measured using the closing price of the Company’s common stock on Nasdaq on the grant date. Additionally, the fair value of the Financial PBRSUs are determined using a probability assessment and the fair value of the TSR PBRSUs with market conditions are determined using the Monte-Carlo simulation model.

For PBRSUs, the Company recognizes stock-based compensation expenses on a straight-line basis over the longer of the derived, explicit, or implicit service period. As of interim and annual reporting periods, the Financial PBRSUs stock-based compensation expense is adjusted based on expected achievement of performance targets, while TSR PBRSUs stock-based compensation expense is not adjusted.

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06—*Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting For Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models previously required under GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features through equity. Without an initial allocation of proceeds to the conversion option, the debt will likely have a lower discount, thereby resulting in less non-cash interest expense through accretion. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted net income per share calculation in certain areas. The new guidance is effective for annual and interim periods beginning after December 15, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. This update permits the use of either the modified retrospective or fully retrospective method of transition.

The Company early adopted this standard, effective as of January 1, 2021, on a modified retrospective basis. The adoption of this standard had a material effect on the Company's consolidated financial statements. The most significant effects related to the 0.125% Convertible Senior Notes due 2027 (the "2020 Notes"), 0.125% Convertible Senior Notes due 2026 (the "2019 Notes"), and 0% Convertible Senior Notes due 2023 (the "2018 Notes" and together with the 2020 Notes and the 2019 Notes, the "Notes"), and included derecognition of the unamortized debt discount, which was recorded as a direct deduction from the Notes, resulting in an increase in long-term debt, net of approximately $264 million; derecognition of the equity component, which represents the value of the conversion option on the issuance date of the Notes outstanding, resulting in a reduction in additional paid-in capital of approximately $229 million, net of taxes; derecognition of deferred tax liabilities of approximately $63 million; and reversal of the cumulative debt discount recognized as interest expense in the Company's Consolidated Statements of Operations since the date of issuance of each of the Notes to the period ending December 31, 2020, resulting in a decrease of accumulated deficit of approximately $28 million, net of taxes. The Company also had a reduction in interest expense due to the adoption of ASU 2020-06 as the debt discount has been derecognized and, effective January 1, 2021, there is no amortization of the debt discount. The Company did not incur any impact to liquidity or cash flows. When calculating net income per share of common stock attributable to common stockholders, the Company uses the if-converted method as required under ASU 2020-06 to determine the dilutive effect of the Notes.

Note 2—Revenue

The following table summarizes revenue disaggregated by Marketplace revenue and optional Services revenue for the periods presented (in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Marketplace revenue	$ 413,642	$ 155,921
Services revenue	137,004	72,134
Revenue	$ 550,646	$ 228,055

Contract balances

Deferred revenues

The amount of revenue recognized in the three months ended March 31, 2021 that was included in the deferred balance at January 1, 2021 was $10.8 million.

Etsy, Inc.

Notes to Consolidated Financial Statements

Note 3—Income Taxes

The Company's provision or benefit from income taxes in interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter the Company updates its estimate of the annual effective tax rate, and if its estimated tax rate changes, the Company makes a cumulative adjustment. The estimate of the annual effective income tax rate for the full year is applied to the respective interim period, taking into account year-to-date amounts and projected results for the full year.

The Company's quarterly tax provision, and its quarterly estimate of the annual effective tax rate, is subject to significant variation due to several factors, including variability in accurately predicting its income or loss before tax and the mix of jurisdictions to which they relate, taxable income or loss in each jurisdiction, changes in its stock price, audit-related developments, acquisitions, changes in its deferred tax assets and liabilities and their valuation, foreign currency gains (losses), changes in statutes, regulations, case law, and administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, the effective tax rate can be more or less volatile based on the amount of income or loss before tax. For example, the impact of discrete items and non-deductible expenses on the effective tax rate is greater when income before income taxes is lower.

For the three months ended March 31, 2021, the Company's effective income tax rate was 8.9% representing an income tax provision recorded on net income before tax. The effective tax rate for the three months ended March 31, 2021 was lower than the U.S. statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, the impact from foreign operations that are subject to lower tax rates, and a benefit related to a research and development tax credit, partially offset by state income taxes.

Although management believes its tax positions and related provisions reflected in the consolidated financial statements are fully supportable, it recognizes that these tax positions and related provisions may be challenged by various tax authorities. These tax positions and related provisions are reviewed on an ongoing basis and are adjusted as additional facts and information become available, including progress on tax audits, changes in interpretation of tax laws, developments in case law and closing of statute of limitations. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the provision for income taxes.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income and deductions, and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. Any adjustments as a result of any examination, may result in additional taxes or penalties against the Company. If the ultimate result of these audits differ from original or adjusted estimates, they could have a material impact on the Company's tax provision.

The amount of unrecognized tax benefits included in the Consolidated Balance Sheets increased $1.0 million in the three months ended March 31, 2021, from $23.7 million as of December 31, 2020 to $24.7 million as of March 31, 2021. The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate is $23.8 million as of March 31, 2021. Although the timing of the resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. Given the number of years remaining subject to examination and the number of matters being examined, at this time, the Company is unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

Note 4—Net Income Per Share

The following table presents the method used when calculating the impact of the Company's convertible senior notes on earnings per share for the periods presented:

	Three Months Ended March 31,	
	2021	2020
2020 Notes	If-Converted	N/A
2019 Notes	If-Converted	Treasury Stock
2018 Notes	If-Converted	If-Converted

The Notes were dilutive for the three months ended March 31, 2021.

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

	Three Months Ended March 31,	
	2021	2020
Numerator:		
Net income attributable to common stockholders—basic	$ 143,766	$ 12,522
Add back interest expense, net of tax attributable to assumed conversion of convertible senior notes	784	—
Net income attributable to common stockholders—diluted	$ 144,550	$ 12,522
Denominator:		
Weighted-average common shares outstanding—basic	126,214,735	118,138,186
Dilutive effect of assumed conversion of options to purchase common stock	4,405,537	4,000,177
Dilutive effect of assumed conversion of restricted stock units	2,311,459	980,690
Dilutive effect of assumed conversion of convertible senior notes	11,782,955	—
Weighted-average common shares outstanding—diluted	144,714,686	123,119,053
Net income per share attributable to common stockholders—basic	$ 1.14	$ 0.11
Net income per share attributable to common stockholders—diluted	$ 1.00	$ 0.10

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 March 31,	
	2021	2020
Stock options	32,992	624,906
Restricted stock units	114,953	1,144,169
Convertible senior notes	—	16,924,593
Total anti-dilutive securities	147,945	18,693,668

Note 5—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 Sheets 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 Company did not have any Level 3 instruments as of March 31, 2021 and December 31, 2020.

Short- and long-term investments and certain cash equivalents consist of investments in debt securities. With the exception of money market funds, these investments in debt securities are classified as available-for-sale. The following table sets forth the cost, gross unrealized losses, gross unrealized gains, and fair values of the Company's investments as of the dates indicated (in thousands):

	Cost	Gross Unrealized Holding Loss	Gross Unrealized Holding Gain	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
March 31, 2021							
Cash	$ 268,843	$ —	$ —	$ 268,843	$ 268,843	$ —	$ —
Level 1							
Foreign government	5,000	—	—	5,000	—	5,000	—
U.S. Government and agency securities	351,887	—	282	352,169	—	347,166	5,003
Money market funds (1)				911,563	892,815	—	—
	356,887	—	282	1,268,732	892,815	352,166	5,003
Level 2							
Certificate of deposit	34,951	(1)	10	34,960	—	34,960	—
Commercial paper	51,730	(3)	13	51,740	2,020	49,720	—
Corporate bonds	198,543	(237)	69	198,375	—	65,723	132,652
	285,224	(241)	92	285,075	2,020	150,403	132,652
	$ 910,954	$ (241)	$ 374	$ 1,822,650	$ 1,163,678	$ 502,569	$ 137,655
December 31, 2020							
Cash	$ 346,136	$ —	$ —	$ 346,136	$ 346,136	$ —	$ —
Level 1							
U.S. Government and agency securities	410,371	(3)	358	410,726	—	376,089	34,637
Money market funds (1)				920,643	881,465	—	—
	410,371	(3)	358	1,331,369	881,465	376,089	34,637
Level 2							
Certificate of deposit	12,746	—	5	12,751	6,000	6,751	—
Commercial paper	14,494	—	4	14,498	10,498	4,000	—
Corporate bonds	42,632	(7)	111	42,736	—	38,279	4,457
	69,872	(7)	120	69,985	16,498	49,030	4,457
	$ 826,379	$ (10)	$ 478	$ 1,747,490	$ 1,244,099	$ 425,119	$ 39,094

(1) $18.7 million and $39.2 million of money market funds were classified as funds receivable and seller accounts as of March 31, 2021 and December 31, 2020, respectively.

The Company evaluates fair value for each individual security in the investment portfolio. All investments in an unrealized loss position have been in an unrealized loss position for less than 12 months as of March 31, 2021.

The Company typically invests in short- and long-term instruments, including fixed-income funds and U.S. Government and agency securities aligned with our investment strategy. The maturities of the Company's non-current marketable debt securities generally range from greater than 12 and up to 37 months.

Disclosure of Fair Values

The Company's financial instruments that are not measured at fair value in the Consolidated Balance Sheets include the Notes, see "Note 7—Debt." The Company estimates the fair value of the Notes through inputs that are observable in the market, classified as Level 2 as described above. The following table presents the carrying value and estimated fair value of the Notes as of the dates indicated (in thousands):

	As of March 31, 2021		As of December 31, 2020	
	Carrying Value (1)	Fair Value	Carrying Value	Fair Value
2020 Notes	$ 642,342	$ 855,530	$ 511,733	$ 536,126
2019 Notes	643,552	1,540,435	514,035	566,399
2018 Notes	16,456	91,346	39,166	42,157
	$ 1,302,350	$ 2,487,311	$ 1,064,934	$ 1,144,682

(1) Upon adoption of ASU 2020-06 as of January 1, 2021, the carrying value of the Notes increased due to the derecognition of the unamortized debt discount, as described in "Note 1—Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements." The increase in the carrying value of the 2018 Notes was offset by the conversion of $27.3 million of the 2018 Notes in the first quarter of 2021 (see "Note 7—Debt").

The carrying value of other financial instruments, including cash, accounts receivable, accounts payable, funds receivable and seller accounts, and funds payable and amounts due to sellers approximate fair value due to the immediate or short-term maturity associated with these instruments.

Note 6—Accrued Expenses

Accrued expenses consisted of the following as of the dates indicated (in thousands):

	As of March 31, 2021	As of December 31, 2020
Pass-through marketplace tax collection obligation	$ 103,191	$ 109,662
Vendor accruals	77,094	73,437
Employee compensation-related liabilities	18,207	43,879
Income tax payable	19,665	5,374
Total accrued expenses	$ 218,157	$ 232,352

Note 7—Debt

2020 Convertible Debt

In August 2020, the Company issued $650.0 million aggregate principal amount of the 2020 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 2020 Notes were approximately $639.5 million after deducting the offering expenses. The 2020 Notes are convertible into shares of the Company’s common stock based upon an initial conversion rate of 5.0007 shares of the Company’s common stock per $1,000 principal amount of 2020 Notes (equivalent to an initial conversion price of approximately $199.97 per share). The Company used $74.7 million of the net proceeds from the 2020 Notes offering to enter into separate capped call instruments (“2020 Capped Call Transactions”) with the initial purchasers and/or their respective affiliates.

During any calendar quarter preceding May 1, 2027 in which the closing price of the Company’s common stock exceeds 130% of the applicable conversion price of the 2020 Notes on at least 20 of the last 30 consecutive trading days of the quarter, holders may, in the immediate quarter following, convert all or a portion of their 2020 Notes. Based on the daily closing prices of the Company’s stock during the quarter ended March 31, 2021, holders of the 2020 Notes are not eligible to convert their 2020 Notes during the second quarter of 2021. Based on the terms of the 2020 Notes, when a conversion notice is received, the Company has the option to pay or deliver cash, shares of the Company’s common stock, or a combination thereof. Accordingly, the Company cannot be required to settle the 2020 Notes in cash and, therefore, the 2020 Notes are classified as long-term debt as of March 31, 2021.

2019 Convertible Debt

In September 2019, the Company issued $650.0 million aggregate principal amount of the 2019 Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds from the sale of the 2019 Notes were $639.5 million after deducting the initial purchasers’ discount and offering expenses. The 2019 Notes are convertible based upon an initial conversion rate of 11.4040 shares of the Company’s common stock per $1,000 principal amount of 2019 Notes (equivalent to an initial conversion price of approximately $87.69 per share). The Company used $76.2 million of the net proceeds from the 2019 Notes offering to enter into separate capped call instruments (“2019 Capped Call Transactions”) with the initial purchasers and/or their respective affiliates.

During any calendar quarter preceding June 1, 2026 in which the closing price of the Company’s common stock exceeds 130% of the applicable conversion price of the 2019 Notes on at least 20 of the last 30 consecutive trading days of the quarter, holders may, in the immediate quarter following, convert all or a portion of their 2019 Notes. Based on the daily closing prices of the Company’s stock during the quarter ended March 31, 2021, holders of the 2019 Notes are eligible to convert their 2019 Notes during the second quarter of 2021. Based on the terms of the 2019 Notes, when a conversion notice is received, the Company has the option to pay or deliver cash, shares of the Company’s common stock, or a combination thereof. Accordingly, the Company cannot be required to settle the 2019 Notes in cash and, therefore, the 2019 Notes are classified as long-term debt as of March 31, 2021.

2018 Convertible Debt

In March 2018, the Company issued $345.0 million aggregate principal amount of the 2018 Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds from the sale of the 2018 Notes were $335.0 million after deducting the initial purchasers’ discount and offering expenses. The 2018 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 2018 Notes (equivalent to an initial conversion price of approximately $36.27 per share). The Company used $34.2 million of the net proceeds from the 2018 Notes offering to enter into separate capped call instruments (“2018 Capped Call Transactions”) with the initial purchasers and/or their respective affiliates.

During the third quarter of 2020, the Company paid $137.2 million in cash and issued approximately 7.3 million shares of Etsy’s common stock to repurchase $301.1 million aggregate principal amount of its outstanding 2018 Notes through privately negotiated transactions. Concurrently, the Company repurchased 1.3 million shares of Etsy’s common stock for $166.2 million, in order to effectively complete the partial repurchase of 2018 Notes principal value in cash, and the conversion premium in shares. The equity component impact associated with the conversion premium on the 2018 Notes was a net increase to additional paid-in capital of $143.2 million. This transaction was accounted for as an extinguishment of debt and recorded in accordance with the applicable accounting standard in the year ended December 31, 2020. The Company recognized a non-cash loss on extinguishment of $16.9 million. This loss was calculated by comparing the carrying value of the debt component with the fair value of a similar liability that does not have an associated convertible feature immediately prior to extinguishment as well as writing off any remaining unamortized deferred debt issuance costs at the time of extinguishment.

During the first quarter of 2021, the Company paid $27.3 million in cash and issued approximately 0.6 million shares of Etsy's common stock to settle conversion notices of $27.3 million aggregate principal amount of the outstanding 2018 Notes. The debt conversion transaction was accounted for in accordance with ASU 2020-06, which was adopted in the first quarter of 2021. See "Note 1—Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements" for additional information.

During any calendar quarter preceding November 1, 2022 in which the closing price of the Company's common stock exceeds 130% of the applicable conversion price of the 2018 Notes on at least 20 of the last 30 consecutive trading days of the quarter, holders may, in the immediate quarter following, convert all or a portion of their 2018 Notes. Based on the daily closing prices of the Company's stock during the quarter ended March 31, 2021, holders of the remaining 2018 Notes are eligible to convert their 2018 Notes during the second quarter of 2021. Based on the terms of the 2018 Notes, when a conversion notice is received, the Company has the option to pay or deliver cash, shares of the Company's common stock, or a combination thereof. Accordingly, the Company cannot be required to settle the 2018 Notes in cash and, therefore, the remaining 2018 Notes are classified as long-term debt as of March 31, 2021.

The following table presents the outstanding principal amount and carrying value of the Notes as of the dates indicated (in thousands):

	As of March 31, 2021			
	2020 Notes	2019 Notes	2018 Notes	Total
Principal	$ 650,000	$ 650,000	$ 16,599	$ 1,316,599
Unamortized debt issuance costs	7,658	6,448	143	14,249
Net carrying value (1)	$ 642,342	$ 643,552	$ 16,456	$ 1,302,350

	As of December 31, 2020			
	2020 Notes	2019 Notes	2018 Notes	Total
Principal	$ 650,000	$ 650,000	$ 43,915	$ 1,343,915
Unamortized debt discount (1)	130,308	129,224	4,286	263,818
Unamortized debt issuance costs	7,959	6,741	463	15,163
Net carrying value	$ 511,733	$ 514,035	$ 39,166	$ 1,064,934

(1) Upon adoption of ASU 2020-06 as of January 1, 2021, the unamortized debt discount balance was derecognized, as described in "Note 1—Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements."

The effective interest rate for the 2020 Notes, 2019 Notes, and 2018 Notes at the date of issuance was 3.50%, 4.00%, and 4.75%, respectively. Interest expense related to each of the Notes for the periods presented below was as follows (in thousands):

	Three Months Ended March 31,							
	2021				2020			
	2020 Notes	2019 Notes	2018 Notes	Total	2020 Notes	2019 Notes	2018 Notes	Total
Coupon interest and amortization of debt issuance costs	$ 502	$ 496	$ 32	$ 1,030	$ —	$ 456	$ 382	$ 838
Amortization of debt discount (1)	—	—	—	—	—	4,828	3,540	8,368
Total interest expense	$ 502	$ 496	$ 32	$ 1,030	$ —	$ 5,284	$ 3,922	$ 9,206

(1) The decrease in interest expense related to the amortization of the debt discount in the current year is due to the adoption of ASU 2020-06 as of January 1, 2021, as described in "Note 1—Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements."

The estimated fair value of each of the Notes was determined through inputs that are observable in the market, and are classified as Level 2. See "Note 5—Fair Value Measurements" for more information regarding the fair value of the Notes.

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 the Company's 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.

2019 Credit Agreement

On February 25, 2019, the Company entered into a $200.0 million senior secured revolving credit facility pursuant to a Credit Agreement (the "2019 Credit Agreement") with lenders party thereto from time to time, and Citibank N.A., as administrative Agent. The 2019 Credit Agreement will mature in February 2024. The 2019 Credit Agreement includes a letter of credit sublimit of $30.0 million and a swingline loan sublimit of $10.0 million.

Borrowings under the 2019 Credit Agreement (other than swingline loans) bear interest, at the Company's option, at (i) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) an adjusted LIBOR rate for a one-month interest period plus 1.00%, in each case plus a margin ranging from 0.25% to 0.875% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.25% to 1.875%. Swingline loans under the 2019 Credit Agreement bear interest at the same base rate (plus the margin applicable to borrowings bearing interest at the base rate). These margins are determined based on the senior secured net leverage ratio (defined as secured funded debt, net of unrestricted cash up to $100 million, to EBITDA) for the preceding four fiscal quarter period. The Company is also obligated to pay other customary fees for a credit facility of this size and type, including an unused commitment fee, ranging from 0.20% to 0.35% depending on the Company's senior secured net leverage ratio, and fees associated with letters of credit.

The Company capitalized $1.4 million of debt issuance costs in connection with the 2019 Credit Agreement. Total unamortized debt issuance costs related to the 2019 Credit Agreement were $0.8 million and $0.9 million as of March 31, 2021 and December 31, 2020, respectively. Non-cash interest expense related to debt issuance costs on the 2019 Credit Agreement for both the three months ended March 31, 2021 and 2020 was $0.1 million. At March 31, 2021, the Company did not have any borrowings under the 2019 Credit Agreement and was in compliance with all financial covenants.

Note 8—Commitments and Contingencies

Legal Proceedings

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 could have an adverse effect on the Company's results of operations, cash flows, or business and financial condition in the period the claims or litigation are resolved. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on its business.

Note 9—Stockholders' Equity

In December 2020, the Board of Directors approved a stock repurchase program that enables the Company to repurchase up to $250 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.

Under the stock repurchase program, the Company may 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 would permit 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. For the three months ended March 31, 2021, the Company did not repurchase common stock under the stock repurchase program, and the remaining amount authorized as of March 31, 2021 is $250 million.

Note 10—Stock-Based Compensation

During the three months ended March 31, 2021, the Company granted stock options and RSUs, including Financial PBRSUs and TSR PBRSUs, 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 6,291,797 shares to the total number of shares available for issuance under the 2015 Plan effective as of January 4, 2021. At March 31, 2021, 44,040,744 shares were authorized under the 2015 Plan and 30,272,377 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 March 31,	
	2021	2020
Volatility	43.4%	39.5%
Risk-free interest rate	1.1%	0.6% - 1.7%
Expected term (in years)	6.15	6.15

The following table summarizes the activity for the Company's options during the three months ended March 31, 2021 (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, 2020	5,099,952	$ 20.97	6.81	$ 800,453
Granted	174,663	223.23		
Exercised	(217,293)	18.08		
Forfeited/Canceled	(9,547)	49.36		
Outstanding at March 31, 2021	5,047,775	28.04	6.70	$ 880,289
Total exercisable at March 31, 2021	3,656,240	14.02	6.10	686,096

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 months ended March 31, 2021 and 2020 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2021	2020
Weighted-average grant date fair value of options granted	$ 95.71	$ 16.68
Intrinsic value of options exercised	44,354	20,425
Fair value of awards vested	8,976	7,385

The total unrecognized compensation expense at March 31, 2021 related to the Company's options was $33.0 million, which will be recognized over an estimated weighted-average amortization period of 3.18 years.

During the first quarter of 2021, service based RSUs, Financial PBRSUs, and TSR PBRSUs were awarded at fixed dollar amounts. The target number of shares underlying the awards was determined based on Etsy's 30-day average share price leading up to and including the grant date.

For the Financial PBRSUs, the number of RSUs received will depend on the achievement of financial metrics relative to the approved performance targets. Depending on the actual financial metrics achieved relative to the target financial metrics, the number of PBRSUs issued could range from 0% to 200% of the target amount. For the TSR PBRSUs, the number of RSUs received will depend on the Company's total shareholder return relative to that of the Nasdaq Composite Index over a three-year measurement period.

The target number of RSUs will be divided into two tranches, with each tranche corresponding to 50% of the target RSUs. The first tranche will vest in full on the third anniversary of the grant date and the second tranche will vest on the fourth anniversary of the grant date, subject to the Compensation Committee's approval of the level of achievement against the approved performance targets.

The following table summarizes the activity for the Company's unvested RSUs, which includes Financial PBRSUs and TSR PBRSUs, during the three months ended March 31, 2021:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2020	3,085,987	$ 50.28
Granted	791,938	228.36
Vested	(183,098)	37.90
Forfeited/Canceled	(40,930)	68.80
Unvested at March 31, 2021	3,653,897	89.29

The total unrecognized compensation expense at March 31, 2021 related to the Company's unvested RSUs, including the Financial PBRSUs and TSR PBRSUs, was $296.5 million, which will be recognized over an estimated weighted-average amortization period of 3.35 years.

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

	Three Months Ended March 31,	
	2021	2020
Cost of revenue	$ 2,357	$ 1,620
Marketing	1,367	1,224
Product development	9,784	6,801
General and administrative	6,843	4,166
Stock-based compensation expense	$ 20,351	$ 13,811

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 ("Quarterly Report") and with the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 26, 2021 (the "Annual Report"). This discussion, particularly information with respect to our outlook, key trends and uncertainties, 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 Part II, Item 1A, "Risk Factors." 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, which we incorporate by reference.

Overview

Business

Etsy operates two-sided online marketplaces that connect millions of passionate and creative buyers and sellers. Our mission is to "Keep Commerce Human," and we're committed to using the power of business and technology to strengthen communities and empower people around the world.

Our primary marketplace, Etsy.com, is the global destination for unique and creative goods. The Etsy marketplace connects creative artisans and entrepreneurs with thoughtful consumers looking for items that are intended to be special, reflect their sense of style, or represent a meaningful occasion. 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 sellers make money. We offer Etsy sellers a marketplace with millions of buyers along with a range of seller tools and services that are specifically designed to help our creative entrepreneurs generate more sales and scale their businesses.

We are focused on attracting potential buyers to the Etsy marketplace for everyday items that have meaning and those "special" purchase occasions that happen throughout the year. We are focused on deepening our engagement with our existing buyers by inspiring purchases across our many retail categories and special occasions. Purchases for use in the everyday include handmade or vintage unique clothing, accessories, household items, or furniture that the buyer wants to reflect her sense of style. Special purchase occasions can occur many times throughout the year and include shopping for occasions that reflects an individual's unique style; gifting that demonstrates thought and care; and celebrations that express creativity and fun. Buyers tell us that they come to Etsy because Etsy sellers offer items that they can't find anywhere else.

The Reverb marketplace is a leading global online marketplace dedicated to buying and selling new, used, and vintage musical instruments, with a vibrant community of buyers and sellers all over the world. Reverb, a wholly-owned subsidiary of Etsy, Inc., is included in all financial and other metrics, unless otherwise noted.

Our revenue is diversified, generated from a mix of marketplace activities and other optional services we provide to sellers.

Marketplace revenue is comprised of the fees a seller pays us for marketplace activities. Marketplace activities primarily include listing an item for sale; completing transactions between a buyer and a seller, which includes, beginning in the second quarter of 2020, an additional transaction fee related to offsite advertising; and using our payments services to process payments, including foreign currency transactions. Etsy fees include the $0.20 listing fee for each item listed (for up to four months); the 5% transaction fee that an Etsy seller pays for each completed transaction, inclusive of shipping fees charged; where applicable, an additional transaction fee of 12% or 15% related to offsite advertising; and fees for Etsy Payments, our payment processing product.

Services revenue is comprised of the fees a seller pays us for our optional other services ("Services"). Services primarily include on-site advertising services, which allow sellers to pay for prominent placement of their listings in search results; and shipping labels, which allow sellers in the United States, Canada, United Kingdom, and Australia to purchase discounted shipping labels.

Our strategy is focused on growing the Etsy marketplace in our seven core geographies and building a sustainable competitive advantage around four elements of our business that we believe differentiate us from our competitors, or what we call our "Right to Win." The foundation of Etsy's competitive advantage is our collection of our sellers' unique items, which, we believe, when combined with best-in-class search and discovery, human connections, and a trusted brand, will enable us to continue to stand out among other e-commerce platforms and marketplaces. Our investments in product, marketing, and talent will be focused on capitalizing on these four elements of our business. Ultimately, the goal of our long-term strategy is to drive more new buyers to the website, give existing buyers reasons to come back more often, encourage buyers to spend more per order, and fuel success for our sellers. We see a number of similarities between the levers of growth for the Etsy and Reverb marketplaces, including improving search and discovery, making selling and buying easier, and building a global brand and user community.

While current macroeconomic conditions have had a dramatic effect on the global economy and on our business, these impacts have led us to reaffirm our long-term strategy and strengthen our commitment to it.

First Quarter 2021 Financial Highlights

As of March 31, 2021, our marketplaces connected 4.7 million active sellers and 90.7 million active buyers in nearly every country in the world. In the three months ended March 31, 2021, sellers generated GMS of $3.1 billion of which approximately 63% came from purchases made on mobile devices. We are a global company and approximately 42% of our GMS in the three months ended March 31, 2021 came from transactions where either a seller or a buyer or both was located outside of the United States.

Total revenue was $550.6 million in the three months ended March 31, 2021, driven by strong growth in both Marketplace and Services revenue. In the three months ended March 31, 2021, we recorded net income of $143.8 million and non-GAAP Adjusted EBITDA of $184.1 million. See "Non-GAAP Financial Measures" for more information and for a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP financial measure.

Cash, cash equivalents, and short-term investments were $1.7 billion as of March 31, 2021. As of March 31, 2021, Etsy had outstanding $650.0 million aggregate principal amount of 0.125% Convertible Senior Notes due 2027 (the "2020 Notes"), $650.0 million aggregate principal amount of 0.125% Convertible Senior Notes due 2026 (the "2019 Notes"), and $16.6 million aggregate principal amount of 0% Convertible Senior Notes due 2023 (the "2018 Notes" and together with the 2020 Notes and the 2019 Notes, the "Notes"). Additionally, Etsy has the ability to draw down on its $200.0 million senior secured revolving credit facility. In the three months ended March 31, 2021, Etsy had positive operating cash flows of $148.5 million.

Quarterly Operating Highlights

Select highlights of our first quarter operating performance and business initiatives are outlined below:

Product: Aligned with our Right to Win strategy, we improved customer experiences across the Etsy marketplace, including the following activities:

- We continue to focus on developing a Search and Discovery experience that unlocks the value of our unique items. In the first quarter of 2021, we enhanced personalized search and incorporated more user features into our ranking models to better understand our users interests and needs, which led to increased engagement, conversion, and repeat purchase rates across all devices.
- We believe that fostering and elevating the quality of human connections will enable us to drive buyer engagement, loyalty, and purchase frequency. During the quarter we launched a new version of our “Sell on Etsy" App with updated features such as a redesigned dashboard and “Convos” to enhance interactions between buyers and sellers.
- We have commenced robust efforts to improve buyer fulfillment, focused on speed expectations, delivery predictability, issue resolution, and seller reputation. For example, we made our buyer protection policy more visible to buyers to bolster trust, offered sellers additional discounted shipping labels, and expanded seller tools to reduce lateness by clearly displaying a schedule of their upcoming and/or past-due orders.
- Our sellers’ collection of unique items represents a large assortment of over 92 million handmade, customized, personalized, vintage, and craft supply products from all over the world. During the quarter we launched several initiatives aimed at elevating the visibility of personalized and bespoke inventory to highlight those purchase occasions that are uniquely Etsy.

Marketing: We continued to drive frequency among existing buyers and acquired new buyers as a result of expanded investments across all marketing channels:

- In television and digital video, we rolled out our new TV campaign, “Meant for You,” in the United States designed with our buyers in mind, and showcasing our sellers’ broad collection of unique items. The campaign, which was released in late January, helped improve our brand metrics throughout the quarter.
- We leaned into saved searches and favorites, and engaged with hundreds of influencers to promote strategic holiday campaigns for Valentine’s Day and U.K. Mother’s Day, which resulted in strong reach and buyer engagement. We also elevated Black sellers through a Black History Month Editor’s Pick page — in addition to our existing Black Owned Shops page. One particularly impactful campaign was our work with the women of Gee’s Bend Quilters, who were featured on the Etsy marketplace; many shops sold out within the campaign’s first 24 hours.
- We expanded Offsite Ads to include more affiliate channels. Our sellers can now reach prospective buyers on major publishing sites as well as the Google Display Network, which helps buyers find our sellers’ items while they’re browsing their favorite websites or using mobile devices and apps.

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Impact Pillars: We continued to make progress on our Impact strategy which reflects the positive economic, social, and ecological impact we want to have on the world while advancing and complimenting our business strategy. Here are some highlights:

- We introduced a new way for buyers to invest in creators and creativity both on and off Etsy. Buyers in the United States who are purchasing from sellers with Etsy Payments can now round up their order total to the nearest dollar and donate the change to the Uplift Fund, which contributes to nonprofits that work to dismantle barriers to creative entrepreneurship, such as lack of digital education and training and access to capital. Since the program launched in February 2021, over 1 million users have participated, marking a great start toward our 2021 goal to raise over $2 million.
- Etsy stands united with the Asian American and Pacific Islander ("AAPI") community against the marked increase in violence, hate speech, and harassment directed toward the AAPI community in the United States since the start of the COVID-19 pandemic. In addition to support and training for our employees, Etsy pledged donations totaling $500,000 to the Asian Pacific Policy and Planning Council and Asian Americans Advancing Justice in support of the broader AAPI community.
- In February 2021, we set a target to continue to run a carbon neutral business and to achieve Net Zero by 2030, addressing not only our Scope 1 and 2 emissions, including our office operations and purchased energy, but also our Scope 3 emissions, which include seller activities like shipping and packaging. We are also focusing in 2021 on further work to establish our Etsy and Reverb marketplaces as destinations for sustainably-minded shoppers and conscious living.

Reverb:

- Reverb benefited from macroeconomic e-commerce tailwinds such as stimulus checks and pandemic-related musical instrument inventory constraints. During the first quarter of 2021, Reverb continued to grow faster than the overall music industry in the United States, and also saw strong growth in its core international markets.
- During the quarter, Reverb made investments to expand inventory and improve the user experience for buyers and sellers, including enhancements in search, personalization, and the Reverb app, which now has better jumping off points for product discovery and easy access to curated musical equipment. Reverb also launched "Gear Collections" a new tool that allows Reverb's members to keep track of all their gear and understand its potential value. Close to 2,000 listings have already been added to Gear Collections as of March 31, 2021.

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 GAAP and non-GAAP financial measures and key operating metrics we use are:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	% Growth Y/Y
	(in thousands, except percentages)		
GMS	$ 3,143,172	$ 1,353,291	132.3 %
Revenue	$ 550,646	$ 228,055	141.5 %
Marketplace revenue	$ 413,642	$ 155,921	165.3 %
Services revenue	$ 137,004	$ 72,134	89.9 %
Gross profit	$ 407,729	$ 145,639	180.0 %
Operating expenses	$ 257,092	$ 120,274	113.8 %
Net income	$ 143,766	$ 12,522	1,048.1 %
Adjusted EBITDA (Non-GAAP)	$ 184,068	$ 55,056	234.3 %
Adjusted EBITDA margin (Non-GAAP)	33 %	24 %	900 bps
Active sellers (1)	4,702	2,814	67.1 %
Active buyers	90,654	47,748	89.9 %
Percent mobile GMS	63 %	58 %	500 bps
Percent international GMS	42 %	36 %	600 bps

(1) See "Active Sellers" definition below.

GMS

Gross merchandise sales ("GMS") is the dollar value of items sold in our marketplaces within the applicable period, excluding shipping fees and net of refunds associated with canceled transactions. GMS does not represent revenue earned by us. GMS is largely driven by transactions in our marketplaces 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 our sellers, the satisfaction of our buyers, and the health, scale, and growth of our business. We track "Paid GMS" for the Etsy marketplace and define it as Etsy.com GMS that is attributable to our performance marketing efforts, which excludes most of our marketing investments focused on brand awareness like TV and digital video.

GMS increased $1.8 billion, or 132.3%, to $3.1 billion in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. Supporting this growth in GMS was an increase in active sellers, driven by strong growth in both international and U.S. sellers, and an increase in active buyers. As of March 31, 2021, habitual buyers, or Etsy buyers who have spent $200 or more and made purchases on six or more days in the previous 12 months, grew to 7.9 million, an increase of 205% compared to March 31, 2020. Additionally, we experienced the following growth in both new buyer and existing buyer GMS in the periods presented:

	Three Months Ended March 31, 2021		2020	
	% Growth Y/Y	% of GMS	% Growth Y/Y	% of GMS
New Buyer GMS	114 %	15 %	24 %	16 %
Existing Buyer GMS	136 %	85 %	34 %	84 %

It is difficult to predict how our business will be impacted as the COVID-19 pandemic runs its course and abates. We currently expect GMS growth to decelerate in 2021 due to a combination of reasons including: macroeconomic factors such as retail businesses reopening, increased consumer spending on travel and other discretionary items, the waning impact of U.S. stimulus checks, continued contraction of mask sales, and a deceleration of new buyers.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA represents our net income adjusted to exclude: interest and other non-operating expense, net; provision (benefit) for income taxes; depreciation and amortization; stock-based compensation expense; foreign exchange (gain) loss; and acquisition-related expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. See "Non-GAAP Financial Measures" for more information regarding our use of Adjusted EBITDA and Adjusted EBITDA margin, including their limitations as a financial measure, and for a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP financial measure.

Active Sellers

An active seller is a seller who has incurred at least one charge from us in the last 12 months. Charges include Marketplace and Services revenue fees, discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Business." A seller is separately identified in each of our marketplaces by a unique e-mail address; a single person can have multiple seller accounts and can count as a distinct active seller in each of our marketplaces. As part of our commitment to integrity and transparency, we continuously monitor the criteria for disqualifying a seller as an active seller. Commencing in the first quarter of 2021, we expanded our disqualifying criteria, but did not apply such criteria to prior periods as the impact of such criteria was immaterial to such periods. We succeed when 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 a buyer who has made at least one purchase in the last 12 months. A buyer is separately identified in each of our marketplaces by a unique e-mail address; a single person can have multiple buyer accounts and can count as a distinct active buyer in each of our marketplaces. We generate revenue when buyers order items from 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 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 orders initiated on mobile devices but ultimately completed on a desktop. When calculating the percentage of 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.

During the three months ended March 31, 2021, mobile GMS increased as a percentage of total GMS to approximately 63%, up from approximately 58% for the three months ended March 31, 2020.

International GMS

International GMS is GMS from transactions where either the billing address for the seller or the shipping address for the 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.

For the three months ended March 31, 2021, international GMS increased as a percentage of total GMS to approximately 42%, up from approximately 36% for the three months ended March 31, 2020. International GMS increased approximately 169% in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, or 156% on a currency-neutral basis, driven by our fastest growing international trade route, international domestic, which is GMS generated between a non-U.S. buyer and a non-U.S. seller both in the same country, and by GMS between U.S. buyers and international sellers. International domestic GMS grew approximately 312% in the three months ended March 31, 2021 compared with the three months ended March 31, 2020.

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
March 31, 2021	132.3 %	127.5 %	4.8 %	132.3 %	127.5 %	4.8 %
December 31, 2020	117.7 %	115.2 %	2.5 %	106.7 %	105.7 %	1.0 %
September 30, 2020	119.4 %	117.4 %	2.0 %	101.1 %	100.9 %	0.2 %
June 30, 2020	145.6 %	146.7 %	(1.1)%	90.8 %	91.6 %	(0.8)%
March 31, 2020	32.2 %	32.6 %	(0.4)%	32.2 %	32.6 %	(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 March 31,	
	2021	2020
	(in thousands)	
Revenue:		
Marketplace	$ 413,642	$ 155,921
Services	137,004	72,134
Total revenue	550,646	228,055
Cost of revenue	142,917	82,416
Gross profit	407,729	145,639
Operating expenses:		
Marketing	151,204	48,505
Product development	53,706	37,782
General and administrative	52,182	33,987
Total operating expenses	257,092	120,274
Income from operations	150,637	25,365
Other income (expense), net	7,091	(15,672)
Income before income taxes	157,728	9,693
(Provision) benefit for income taxes	(13,962)	2,829
Net income	$ 143,766	$ 12,522

	Three Months Ended March 31,	
	2021	2020
Revenue:		
Marketplace	75.1 %	68.4 %
Services	24.9	31.6
Total revenue	100.0	100.0
Cost of revenue	26.0	36.1
Gross profit	74.0	63.9
Operating expenses:		
Marketing	27.5	21.3
Product development	9.8	16.6
General and administrative	9.5	14.9
Total operating expenses	46.7	52.7
Income from operations	27.4	11.1
Other income (expense), net	1.3	(6.9)
Income before income taxes	28.6	4.3
(Provision) benefit for income taxes	(2.5)	1.2
Net income	26.1 %	5.5 %

Comparison of Three Months Ended March 31, 2021 and 2020

Revenue

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Change $	Change %
	(in thousands, except percentages)			
Revenue:				
Marketplace	$ 413,642	$ 155,921	$ 257,721	165.3 %
Percentage of total revenue	75.1 %	68.4 %		
Services	$ 137,004	$ 72,134	$ 64,870	89.9 %
Percentage of total revenue	24.9 %	31.6 %		
Total revenue	$ 550,646	$ 228,055	$ 322,591	141.5 %

Revenue increased $322.6 million, or 141.5%, to $550.6 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, of which 75.1% consisted of Marketplace revenue and 24.9% consisted of Services revenue.

Marketplace revenue increased $257.7 million, or 165.3%, to $413.6 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. This growth was substantially all due to an increase in the volume of GMS on our marketplaces for the three months ended March 31, 2021 to a total of $3.1 billion, and the balance was due to pricing related to the introduction of our Offsite Ads transaction fee in May 2020. A significant majority of the growth in volume of GMS was driven by the Etsy marketplace. The balance was due to Reverb, whose revenue consisted principally of Marketplace revenue.

Within the increase in volume of GMS, transaction fee revenue increased 144.4%, payments revenue increased 156.0%, and listing fee revenue increased 89.1% year-over-year. The share of Etsy.com GMS processed through our Etsy Payments platform was 92% in the three months ended March 31, 2021, up from 89% in the three months ended March 31, 2020, primarily due to the transition of sellers in eligible countries to the platform.

Services revenue increased $64.9 million, or 89.9%, to $137.0 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The growth in Services revenue was primarily driven by an increase of 92.8% in on-site advertising revenue, which represented a significant majority of the overall Services revenue increase, and, to a lesser extent, an increase in shipping label revenue of 81.3% from the prior year. The increase in advertising revenue was primarily due to higher click volume on Etsy Ads, partially offset by a decrease in revenue related to the Google Shopping portion of our formerly unified on-site and offsite advertising platform. The increase in shipping label revenue was primarily driven by an increase in label volume, the majority of which is driven by the increase in GMS.

Cost of Revenue

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Change $	Change %
	(in thousands, except percentages)			
Cost of revenue	$ 142,917	$ 82,416	$ 60,501	73.4 %
Percentage of total revenue	26.0 %	36.1 %		

Cost of revenue increased $60.5 million, or 73.4%, to $142.9 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily driven by increased costs related to overall volume increases on our marketplaces, including payments fees and cloud-related hosting and bandwidth costs. The increase was also due to increased employee compensation-related expenses, including stock-based compensation, mainly driven by an increase in average headcount. These increases were partially offset by a decrease in costs related to the Google Shopping portion of our formerly unified on-site and offsite advertising platform. We gained leverage as cost of revenue did not increase as fast as revenue.

Operating Expenses

We had 1,508 total employees on March 31, 2021, compared with 1,276 total employees on March 31, 2020 and 1,414 on December 31, 2020.

Marketing

	Three Months Ended March 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Marketing	$ 151,204	$ 48,505	$ 102,699	211.7 %
Percentage of total revenue	27.5 %	21.3 %		

Marketing expenses increased $102.7 million, or 211.7%, to $151.2 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily as a result of increased spend in digital marketing, and, to a lesser extent, television ad campaigns. The increase in digital marketing was largely due to the shift to our Offsite Ads offering beginning in the second quarter of 2020 and increased site traffic. Paid GMS was 21% of overall GMS in the three months ended March 31, 2021, up from paid GMS of 16% in the three months ended March 31, 2020, which is a result of higher return on ad spend due to favorable competitive dynamics and the launch of Offsite Ads.

Product development

	Three Months Ended March 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Product development	$ 53,706	$ 37,782	$ 15,924	42.1 %
Percentage of total revenue	9.8 %	16.6 %		

Product development expenses increased $15.9 million, or 42.1%, to $53.7 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily as a result of increased employee compensation-related expenses, including stock-based compensation, mainly driven by an increase in average headcount. Additionally, we gained leverage as product development expenses did not increase as fast as revenue.

General and administrative

	Three Months Ended March 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
General and administrative	$ 52,182	$ 33,987	$ 18,195	53.5 %
Percentage of total revenue	9.5 %	14.9 %		

General and administrative expenses increased $18.2 million, or 53.5%, to $52.2 million in the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily due to increased employee compensation-related expenses, including stock-based compensation, mainly driven by an increase in average headcount and performance based restricted stock units, which were granted for the first time in 2021. General and administrative expenses increased to a lesser extent due to increased digital service tax expenses and charitable contributions. Additionally, we gained leverage as general and administrative expenses did not increase as fast as revenue.

Other Income (Expense), net

	Three Months Ended March 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Other income (expense), net:				
Interest expense	$ (1,685)	$ (9,967)	$ 8,282	(83.1)%
Percentage of total revenue	(0.3)%	(4.4)%		
Interest and other income	$ 979	$ 3,613	$ (2,634)	(72.9)%
Percentage of total revenue	0.2 %	1.6 %		
Foreign exchange gain (loss)	$ 7,797	$ (9,318)	$ 17,115	(183.7)%
Percentage of total revenue	1.4 %	(4.1)%		
Other income (expense), net	$ 7,091	$ (15,672)	$ 22,763	(145.2)%
Percentage of total revenue	1.3 %	(6.9)%		

Other income, net was $7.1 million in the three months ended March 31, 2021, which increased $22.8 million from other expense, net of $15.7 million in the three months ended March 31, 2020. The increase was primarily driven by an increase in foreign exchange gain largely due to favorable changes in U.S. dollar, Euro, Pound Sterling, and Canadian dollar exchange rates in the current year versus unfavorable changes in the exchange rates for the same currencies in the prior year which impact our intercompany and other non-functional currency cash balances. To a lesser extent, the increase was also due to a decrease in interest expense driven by the adoption of Accounting Standards Update ("ASU") 2020-06 in the first quarter of 2021 as there was no further amortization of the debt discount related to the Notes due to its derecognition. For more information on the adoption of ASU 2020-06, see "Note 1—Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements" in the Notes to Consolidated Financial Statements.

(Provision) Benefit for Income Taxes

	Three Months Ended March 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
(Provision) benefit for income taxes	$ (13,962)	$ 2,829	$ (16,791)	(593.5)%
Percentage of total revenue	(2.5)%	1.2 %		

Our income tax provision and benefit for the three months ended March 31, 2021 and 2020 was $14.0 million and $2.8 million, respectively.

The primary driver of our income tax provision for the three months ended March 31, 2021 was tax expense of $27.8 million on income before income taxes, partially offset by tax benefits from employee stock-based compensation of $13.4 million.

The primary drivers of our income tax benefit for the three months ended March 31, 2020 were tax benefits from employee stock-based compensation of $4.4 million, partially offset by tax expense on income before tax of $1.3 million.

Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted EBITDA Margin

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; provision (benefit) for income taxes; depreciation and amortization; stock-based compensation expense; foreign exchange (gain) loss; and acquisition-related expenses. We also provide Adjusted EBITDA margin, a non-GAAP financial measure that presents Adjusted EBITDA divided by revenue. Below is a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA and Adjusted EBITDA margin because they are key measures 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 and Adjusted EBITDA margin 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 and Adjusted EBITDA margin have limitations as an analytical tool, 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:

- 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 (gain) loss;
- Adjusted EBITDA does not reflect acquisition-related expenses; 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 and Adjusted EBITDA margin alongside other financial performance measures, including net income, revenue, and our other GAAP results.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
	(in thousands)	
Net income	$ 143,766	$ 12,522
Excluding:		
Interest and other non-operating expense, net (1)	706	6,354
Provision (benefit) for income taxes (2)	13,962	(2,829)
Depreciation and amortization	13,080	15,163
Stock-based compensation expense (3)	20,351	13,811
Foreign exchange (gain) loss (4)	(7,797)	9,318
Acquisition-related expenses	—	717
Adjusted EBITDA	$ 184,068	$ 55,056
Divided by:		
Revenue	$ 550,646	$ 228,055
Adjusted EBITDA margin	33 %	24 %

(1) Included in interest and other non-operating expense, net is primarily non-cash interest expense, including amortization of debt issuance costs, related to our convertible debt offerings, which were entered into in March 2018, September 2019, and August 2020. The adoption of ASU 2020-06 in the first quarter of 2021 resulted in a decrease in non-cash interest expense related to the Notes as there was no amortization of the debt discount due to its derecognition. For more information on the adoption of ASU 2020-06, see “Note 1—Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements” in the Notes to Consolidated Financial Statements.

(2) See “Results of Operations—(Provision) Benefit for Income Taxes” for more information on the fluctuation in provision (benefit) for income taxes in the three months ended March 31, 2021 and 2020.

(3) See “Note 10—Stock-Based Compensation” in the Notes to Consolidated Financial Statements for disclosure of stock-based compensation expense included in the Consolidated Statements of Operations by financial statement line item classification.

(4) See “Results of Operations—Other Income (Expense), net” for more information on the fluctuation in foreign exchange (gain) loss for the three months ended March 31, 2021 and 2020.

Liquidity and Capital Resources

Cash, cash equivalents, and short-term investments were $1.7 billion as of March 31, 2021. Additionally, we have $137.7 million in long-term investments that we can liquidate at short notice and with minimal penalties if needed. We also have the ability to draw down on our $200.0 million senior secured revolving credit facility. In the three months ended March 31, 2021, we had positive operating cash flows of $148.5 million and we expect to generate additional cash flow from operations in the remainder of 2021. We believe that this capital structure, as well as the nature and framework of our business will allow us to meet all debt covenants, sustain our business operations, and be able to react to changing macroeconomic conditions.

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

	As of March 31, 2021
	(in thousands)
Cash and cash equivalents	$ 1,163,678
Short-term investments	502,569
Long-term investments	137,655
Total cash and cash equivalents, and short- and long-term investments	$ 1,803,902
Net working capital	$ 1,466,574

As of March 31, 2021, a majority of our cash and cash equivalents, which were primarily 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 fund our international operations from our funds held in the United States on an as-needed basis.

We invest in short- and long-term instruments, including fixed-income funds and 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 across a balanced portfolio, and continue to provide us with direct fiduciary control. In accordance with our investment policy, all investments have maturities no longer than 37 months, with the average maturity of these investments maintained at 12 months or less.

Sources of Liquidity

As of March 31, 2021 we had three outstanding series of convertible senior notes. Based on the terms of the Notes, we have the option to pay or deliver cash, shares of our common stock, or a combination thereof, when a conversion notice is received. Based on the daily closing prices of our stock during the quarter ended March 31, 2021, holders of the 2019 Notes and 2018 Notes are eligible to convert their Notes during the second quarter of 2021 and holders of the 2020 Notes are not eligible to convert their 2020 Notes during the second quarter of 2021.

During the first quarter of 2021, we paid $27.3 million in cash and issued approximately 0.6 million shares of our common stock to settle conversion notices of $27.3 million aggregate principal amount of the outstanding 2018 Notes.

We have the ability to draw down on a $200.0 million senior secured revolving credit facility (the “2019 Credit Agreement”). At March 31, 2021, we did not have any borrowings under the 2019 Credit Agreement.

For more information on the Notes and the 2019 Credit Agreement see “Note 7—Debt” in the Notes to Consolidated Financial Statements.

We believe that our existing cash and cash equivalents and short- and long-term investments, together with cash generated from operations, will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. While this belief is based on our current expectations and assumptions in light of current macroeconomic conditions, our future capital requirements and the adequacy of available funds will depend on many factors, including those described in Part II, Item 1A, “Risk Factors” in this Quarterly Report.

Historical Cash Flows

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Cash provided by (used in):		
Operating activities	$ 148,465	$ 29,664
Investing activities	(181,010)	6,093
Financing activities	(39,378)	(32,678)

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 working capital.

Net cash provided by operating activities was $148.5 million in the three months ended March 31, 2021, primarily driven by cash net income of $175.8 million as a result of revenue generated on our platform and changes in our operating assets and liabilities that used $27.3 million in cash, primarily driven by payment timing of payables in the period.

Net cash provided by operating activities was $29.7 million in the three months ended March 31, 2020, primarily driven by cash net income of $59.6 million, as a result of revenue generated on our platform offset by changes in our operating assets and liabilities that used $29.9 million in cash, driven by payment timing of payables in the period.

Net Cash (Used in) Provided by Investing Activities

Our primary investing activities consist of sales and purchases of short- and long-term marketable securities 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 $181.0 million in the three months ended March 31, 2021. This was primarily attributable to net purchases of marketable securities of $177.3 million. This was partially offset by $3.8 million in capital expenditures, including $3.2 million for website development and internal-use software as we continued to invest in projects adding new features and functionality to our platform.

Net cash provided by investing activities was $6.1 million in the three months ended March 31, 2020. This was primarily attributable to net sales of marketable securities of $7.9 million. This was partially offset by $1.8 million in capital expenditures, including $1.3 million for website development and internal-use software.

Net Cash Used in Financing Activities

Our primary financing activities include settlement of convertible senior notes, repurchases of common stock, payment of tax obligations on vested equity awards, proceeds from exercise of stock options, and payments on finance lease obligations.

Net cash used in financing activities was $39.4 million in the three months ended March 31, 2021. This was primarily attributable to the conversion of $27.3 million of the 2018 Notes and payment of tax obligations on vested equity awards of $14.8 million, partially offset by proceeds from the exercise of stock options of $3.9 million.

Net cash used in financing activities was $32.7 million in the three months ended March 31, 2020. This was primarily attributable to share activity, including the January 2020 stock repurchase of $25.0 million and payment of tax obligations on vested equity awards of $4.2 million, partially offset by proceeds from the exercise of stock options of $4.9 million.

Off Balance Sheet Arrangements

As of March 31, 2021, we had no off balance sheet arrangements.

Contractual Obligations

As of March 31, 2021, there were no material changes in commitments under contractual obligations, compared to the contractual obligations disclosed in our Annual Report.

Critical Accounting Policies 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, equity, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. The future effects of the ongoing COVID-19 pandemic on the Company's results of operations, cash flows, and financial position are unclear; however the Company believes it has used reasonable estimates and assumptions in preparing the consolidated financial statements. Our actual results could differ from these estimates.

Except for changes resulting from the issuance of performance based restricted stock units and the adoption of ASU 2020-06 during the first quarter of 2021, see "Note 1—Basis of Presentation and Summary of Significant Accounting Policies," there have been no significant changes to our critical accounting policies included in the Company's Annual Report. There have been no significant changes to our critical estimates included in the Company's Annual Report.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Management believes there are no material changes to our quantitative and qualitative disclosures about market risks during the three months ended March 31, 2021, compared to those disclosed in the Annual Report.

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 March 31, 2021. “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 SEC’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 March 31, 2021 at the reasonable assurance level.

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.

Changes in Internal Control over Financial Reporting

In the first quarter of 2021, we completed our migration of significant financial data to a new enterprise data warehouse. As part of the implementation, we designed, implemented, and are operating new information technology general controls, and revised certain process-level controls.

Except as described above, 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 first quarter of 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings.

See “Note 8—Commitments and Contingencies—Legal Proceedings” in the Notes to Consolidated Financial Statements.

Item 1A. Risk Factors.

Investing in our securities 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 securities could decline and you could lose part or all of your investment. In addition, factors other than those discussed below or in other of our reports filed with or furnished to the SEC also could adversely affect our business, financial condition or results of operations. We cannot assure you that the risk factors described below or elsewhere in our reports address all potential risks that we may face. These risk factors also serve to describe factors which may cause our results to differ materially from those described in forward-looking statements included herein or in other documents or statements that make reference to this Quarterly Report. See “Note Regarding Forward-Looking Statements.”

Operational Risks Related to Our Business

We have experienced rapid growth, and we may not have the infrastructure, human resources, or operational resources to sustain continued growth at our recent pace.

We have experienced rapid growth in our business, in the number of buyers and sellers and purchase frequency. Our revenue growth may not be sustainable and our rate of growth may decrease. Even if our revenue continues to grow, we may not be able to maintain profitability in the future. In addition, our costs may increase as we continue to invest in the development of our marketplaces, including our services and technological enhancements, and increase our marketing efforts, expand our operations, and hire additional employees. Further, the growth of our business places significant demands on our management team and pressure to expand our operational, compliance, payments, and financial infrastructure. For example, we may need to continue to develop and improve our operational, financial, compliance, payments, and management controls and enhance our reporting systems and procedures to support our current and future growth.

Our rapid growth may make us a more attractive target to bad actors and fraudsters targeting our marketplaces and our community, civil litigants, and those seeking to enforce questionable intellectual property rights. Our increased visibility may also lead to attempts to misrepresent or mischaracterize us or our marketplaces, such as on social media, or via individual or coordinated campaigns. This may lead to increased risks that shift more quickly than our policies, enforcement mechanisms, and systems can react. We may not be successful in defending against these types of claims which, if successful, could damage our brand and our business. Even if we are successful in defending against these types of claims, we may be required to spend significant resources in those efforts which may distract our management and otherwise negatively impact our results of operations

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. In addition, our revenue may decline and our revenue growth rate may decelerate for a number of reasons, including the abatement of COVID-19 pandemic and other factors described elsewhere in these Risk Factors. 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 periods as an indication of our future performance.

The COVID-19 pandemic is unprecedented and has impacted, and may continue to impact, our GMS, key metrics, and results of operations in numerous ways that remain volatile and unpredictable.

We expect that COVID-19 and its economic and social impacts will continue to affect our business in 2021. While the rollout of COVID-19 vaccines has begun, the timing and speed of vaccination rollouts and lifting of shelter in place requirements and movement restrictions varies from location to location, is evolving, and to a large extent remains unknown. We continue to experience the uncertainty caused by the COVID-19 pandemic and its potential impact on the global economy, e-commerce at large, and global macroeconomic conditions that impact consumer spending. In addition, the COVID-19 pandemic and related government and private sector responsive actions have affected the broader economies and financial markets, and have at points adversely affected, and could again adversely affect demand for products sold in our marketplaces. It is impossible to predict all the effects and the ultimate impact of the COVID-19 pandemic, as the situation continues to evolve. The COVID-19 pandemic has also disrupted the global supply chain and the preventative and protective measures currently in place, or which may be instituted or re-instituted in the future, such as quarantines, closures and movement restrictions, may interfere with the ability of our sellers to deliver products to our buyers. If delivery services are delayed or shut down, our GMS and revenue could be negatively impacted.

Our results of operations may be materially affected by adverse conditions in the capital markets and the economy generally, both in the United States and internationally. Uncertainty in the economy could adversely impact consumer purchases of discretionary items across all of our product categories, and demand for products available in our marketplaces may be reduced. Our results of operations have also been positively impacted by several trends related to the COVID-19 pandemic, including the shift from offline to online shopping, fast moving dynamics in the e-commerce space, retail business closures, stimulus checks, and emerging categories such as face masks. However, we have seen demand for certain items, like handmade masks, diminish significantly with the rollout of the vaccine, and as medical grade masks become widely available. It is also difficult to predict how our business might be impacted by changing consumer spending patterns when the pandemic abates. As pandemic-related restrictions on movement ease, competition may intensify as buyers return to traditional brick and mortar retail stores. Additionally, our sales may decline if pent-up demand for other discretionary spending replaces demand for online shopping. Other factors that could affect consumers' willingness to make discretionary purchases include, among others: levels of employment, interest rates, tax rates, housing costs, the availability of consumer credit, consumer confidence in future economic conditions, and stimulus checks. In the event of a prolonged economic downturn or acute recession, consumer spending habits could be adversely affected, and we could experience lower than expected GMS, revenue, net income, and Adjusted EBITDA.

As a result of the COVID-19 pandemic, our employees continue to work remotely, and it is possible that this could have a negative impact on the execution of our business plans and operations. If a natural disaster, power outage, connectivity issue, or other event occurred that impacted our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working for employees, vendors, or contractors may also result in increased consumer privacy, IT security, and fraud concerns. Further, as certain businesses return to on-site operations, we may experience disruptions if our employees or third-party service providers' employees become ill despite the availability of vaccines, and are unable to perform their duties. This may impact our operations, internet, or mobile networks, or the operations of one or more of our third-party service providers.

The uncertainty around the duration of business disruptions and the timing of vaccine rollouts, herd immunity and the lifting of shelter in place restrictions in the United States and other areas of the world may continue to adversely impact the national and/or global economy and negatively impact consumer discretionary spending, even in the e-commerce space, which experienced growth during the pandemic. The full extent of COVID-19's impact on our operations, key metrics, and financial performance depends on future developments that are uncertain and unpredictable, including the timing of vaccine rollouts and herd immunity, the relaxation of movement and travel restrictions, the occurrence of virus mutations and variants, the pandemic's impact on capital and financial markets, and any new information that may emerge concerning the virus, vaccines, and containment, all of which may vary across regions. Any of these factors could have a material adverse impact on our business, financial condition, operating results, and ability to execute and capitalize on our strategies.

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 GMS or revenue, including as a result of adverse market conditions due to the COVID-19 pandemic and the re-opening of traditional brick and mortar retail and other options for discretionary spending as and when restrictions on movement are loosened, the impact or the waning of the impact of any government stimulus package, the seasonality of market transactions, and our sellers' use of services;
- our ability to convert visits into sales for our sellers;
- the amount and timing of our operating expenses;
- our success in attracting and retaining sellers and 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;
- the success of our marketing efforts;
- the success of our acquired businesses, such as Reverb, which we acquired in 2019;
- adverse economic and market conditions, such as those related to the current COVID-19 pandemic, currency fluctuations, and adverse global events;
- disruptions or defects in our marketplaces, such as privacy or data security breaches, errors in our software, or other incidents that impact the availability, reliability, or performance of our platform;
- the impact of competitive developments and our response to those developments;

- our ability to manage our business and future growth; and
- our ability to recruit and retain employees.

Fluctuations in our quarterly operating results, key metrics, and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by, and the unprecedented nature of, the current COVID-19 pandemic, consumer spending patterns, and the impacts of the gradual reopening of the offline economy and lessening of restrictions on movement. 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.

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 and the impacts of the COVID-19 pandemic 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 quarter-to-quarter comparisons of our results of operations as an indication of future performance.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

From time to time, we release earnings guidance in our quarterly and annual earnings conference calls, quarterly and annual earnings releases, or otherwise, regarding our future performance that represents our management’s estimates as of the date of release. For example, we historically have provided annual guidance, but we withdrew our 2020 annual guidance on April 2, 2020 given the economic uncertainty caused by the COVID-19 pandemic and have been providing only quarterly guidance since.

On May 5, 2021, we provided guidance for the second quarter of 2021. This guidance includes forward-looking statements based on projections prepared by our management. Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic, and competitive uncertainties and contingencies relating to our business, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. Some of those key assumptions include the impact of the COVID-19 pandemic and its duration, particularly as vaccines become widely rolled-out and restrictions on movement are lifted, future consumer spending patterns, and the associated economic uncertainty on our business. These assumptions are inherently difficult to predict, particularly in the long term. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our actual business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the ongoing COVID-19 pandemic, and the impacts of reduced movement, which could adversely affect our business and future operating results. There are no comparable recent events that provide insights on the probable effects of the COVID-19 pandemic, and, as a result, the ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. We are relying on the reports and models of economic and medical experts in making assumptions relating to the duration of this crisis, resumption of freedom of movement and predictions as to timing and pace of any future economic recovery. If these models are incorrect or incomplete, or if we fail to accurately predict the full impact that the COVID-19 pandemic will have on all aspects of our business or the duration of those impacts, the guidance and other forward-looking statements we provide may also be incorrect or incomplete. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors, or other interested parties, the price of our common stock could decline.

Given the uncertainty surrounding the impacts and duration of COVID-19, the efficacy of a vaccine, and the timing and impact of the easing of restrictions on movement, we may continue not to provide guidance, or continue to provide more limited quarterly guidance, as we did in 2020 and the first two quarters of 2021. Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Risk Factors section in this report could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

If we experience a technology disruption or failure that results in a loss of information, if personal data or sensitive information about members of our community or employees is misused or disclosed, or if we or our third-party providers are unable to protect against software and hardware vulnerabilities, service interruptions, cyber incidents, ransomware, security incidents, or security breaches, then members of our community may curtail use of our platform, we may be exposed to liability or incur additional expenses, and our reputation could suffer.

Like all online services, we are vulnerable to power outages, telecommunications failures, and catastrophic events, as well as computer viruses, break-ins, phishing attacks, denial-of-service attacks, ransomware, and other cyber incidents. Any of these occurrences could lead to interruptions or shutdowns of our platform, loss of data, or unauthorized disclosure of personal or financial information of our members or employees. 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 have integrated a variety of recovery systems, security protocols, network protection mechanisms and other security measures into our systems, networks and physical facilities, which are designed to protect against, detect and minimize security breaches, including security testing, encryption of sensitive information, and authentication technology, we cannot assure you that such measures will be adequate to prevent or detect service interruption, system failure, data loss or theft, or other material adverse consequences, particularly given the increasingly sophisticated tools and methods used by hackers, organized cyber criminals, and cyber terrorists.

In addition, we have experienced in the past, and may experience in the future, technology disruptions, cyber incidents, and security breaches, including intentional, inadvertent, or social engineering breaches occurring through our employees or employees of our third-party service providers. In addition, if our employees or employees of our third-party service providers fail to comply with our internal security policies and practices, member or employee data may be improperly accessed, used, or disclosed.

Our security and access controls for our systems may not be adequate, which may heighten the risk of a cyber attack or security breach. Among other things, our applications, systems, networks, software and physical facilities could have material vulnerabilities, be breached or the personal or confidential information that we store could be otherwise compromised due to employee error or malfeasance, if, for example, third parties attempt to fraudulently induce our employees or our members to disclose information or user names and/or passwords, or otherwise compromise the security of our networks, systems and/or physical facilities. Additionally, employees or service providers may inadvertently misconfigure resources or misdirect certain communications in manners that may lead to security incidents on which we must then expend effort and expenses to correct.

As we have moved to a fully remote work environment due to the COVID-19 pandemic, and as the industry generally moves to online remote infrastructure for core work, we and our partners may be more vulnerable to cyber attacks. Cyber attacks could also result in the theft of our intellectual property or user data.

A successful cyber attack could occur and persist for an extended period of time before being detected. Because the techniques used by hackers change frequently, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, because any investigation of a cybersecurity incident would be inherently unpredictable, the extent of a particular cybersecurity incident and the path of investigating the incident may not be immediately clear. It may take a significant amount of time before an investigation can be completed and full and reliable information about the incident is known. While an investigation is ongoing, we may not necessarily know the extent of the harm or how best to remediate it, certain errors or actions could be repeated or compounded before they are discovered and remediated, and communication to the public, regulators, members of our community, and other stakeholders may be inaccurate, any or all of which could further increase the costs and consequences of a cybersecurity incident. Applicable rules regarding how to respond, notice to users and reporting to regulators vary by jurisdiction, and may subject Etsy to additional liability and reputational harm.

Our production systems rely on internal technology, along with cloud services and software provided by our third-party service providers. In the event of a cyber-incident, even partial unavailability of our production systems could impair our ability to serve our customers, manage transactions, or operate our marketplaces. We have implemented disaster recovery mechanisms, including systems to back up key data and production systems, but these systems may be inadequate or incomplete. For example, these disaster recovery systems may be susceptible to cyber-incidents if not sufficiently separated from primary systems, not comprehensive, or not at a scale sufficient to replace our primary systems. Insufficient production and disaster recovery systems could, in the event of a cyber-incident, harm our growth prospects, our business, and our reputation for maintaining trusted marketplaces.

The costs and effort to respond to a security breach and/or to mitigate any security vulnerabilities that may be identified could be significant, our efforts to address these problems may not be successful, and these problems could result in unexpected interruptions, delays, cessation of service, negative publicity, and other harm to our business and our competitive position. We could be required to fundamentally change our business activities and practices in response to a security breach or related regulatory actions or litigation, which could have an adverse effect on our business.

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, compromise, or unauthorized disclosure of personal data or other 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 sellers and buyers may stop listing new items for sale, decrease their purchases, or close their accounts altogether. We could also face damage to our reputation, potential liability, regulatory investigations in multiple jurisdictions, and 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 trusted marketplaces.

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 payment card information and other confidential and sensitive member data. We may have contractual and regulatory obligations to supervise the security and privacy practices of our third-party service providers. Despite our best efforts, if these third parties fail to adhere to adequate security practices, or experience a cyber attack such as a breach of their networks, our members' data may be improperly accessed, used, or disclosed. More generally, our third-party service providers may not have adequate security and privacy controls, may not properly exercise their compliance, regulatory or notification requirements, including as to personal data, or may not have the resources to properly respond to an incident. Many of our service providers have moved to a remote work environment and may, as a result, be more vulnerable to cyber attacks.

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 and functionality of our marketplaces. Additionally, due to the interconnected nature of the software underlying our platform, updates to parts of our code, third party code, and APIs, on which we rely and that maintain the functionality of our marketplaces and business, could have an unintended impact on other sections of our code, which may result in errors or vulnerabilities to our platform that negatively impact the user experience and functionality of our marketplaces. In some cases, such as our mobile apps, errors may only be correctable through updates distributed through slower, third party mechanisms, such as app stores, and may need to comply with third party policies and procedures to be made available, which may add additional delays due to app review and user delay in updating their mobile apps. In addition, our systems are increasingly reliant on machine learning systems, which are complex and may have errors or inadequacies that are not easily detectable. These systems may inadvertently reduce the efficiency of our systems, or may cause unintentional or unexpected outputs that are incorrect, do not match our business goals, do not comply with our policies, or otherwise are inconsistent with our brand, guiding principles, and mission. Any errors or vulnerabilities discovered in our code after release could also 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 rely on Google Cloud for a substantial portion of the computing, storage, data processing, networking, and other services for Etsy.com.

Google Cloud Platform provides a distributed computing infrastructure as a service platform for business operations, and we have migrated Etsy's primary production environment and data centers to Google Cloud, increasing our reliance on cloud infrastructure. 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. Our products and services are in significant part reliant on continued access to, and the continued stability, reliability, and flexibility of Google Cloud. 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. To a lesser extent, Reverb relies on Amazon Web Services for some business operations, and is thus subject to similar risks.

The trustworthiness of our marketplaces and the connections within our community are important to our success. Our business, financial performance, and growth depend on our ability to attract and retain an active and engaged community of buyers and sellers. If we are unable to retain our existing buyers and sellers and activate new ones, our financial performance could decline.

We are focused on ensuring that our marketplaces embody our mission and values, and that we deliver trust and reliability throughout the buyer and seller experiences. Our reputation and brand depend, in part, upon our ability to maintain trustworthy marketplaces, and also upon our sellers, the quality of their offerings, their adherence to our policies, and their ability to deliver a trusted purchasing experience.

We view the trustworthiness and reliability of our marketplaces, as well as the connections we foster in our buyer/seller communities, to be cornerstones of our business and key to our success. 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 marketplaces, privacy or data security incidents, website outages, payment disruptions or other incidents that impact the reliability of our platform;
- lack of awareness of our policies or confusion about how they are applied;
- changes to our policies that members of our community perceive as inconsistent with their best interests or our mission, or that are not clearly articulated;
- inadequacies in our terms of use;
- frequent product launches, updates, and experiments that could deteriorate member trust;
- a failure to enforce our policies effectively, consistently, and transparently, including, for example, by allowing the widespread listing of prohibited items in our marketplaces;
- inadequate or unsatisfactory customer service experiences;
- a failure on the part of our sellers to fulfill their orders in accordance with our policies, their own shop-specific policies, or buyer expectations;
- a failure to respond to feedback from our community; or
- a failure to operate our business in a way that is consistent with our guiding principles and mission.

Creating a trusted brand is one of the key elements of our strategy. In particular, we are focused on enhancing the customer experience for both sellers and buyers. We continue to evolve our offerings and invest to improve our customer experience on our marketplaces. If our efforts are unsuccessful, or if our customer service platform or our trust and safety program fails to meet our requirements, legal requirements, or our customers' requirements, we may need to quickly invest significant additional resources. If we are unable to do so, our ability to maintain trustworthy marketplaces, attract buyers and sellers, and maintain our trusted brand, could be harmed.

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

Our financial performance has been and will continue to be significantly determined by our success in attracting and retaining active buyers and active sellers. For example, our revenue is driven by the number of active buyers and buyer engagement, as well as the number of active sellers and seller engagement. If we are not successful in encouraging buyers to return to us and purchase items in our marketplaces more frequently and sellers to list items for sale and use our services, our financial performance may be negatively impacted.

Our GMS and revenue is concentrated in our most active buyers and sellers. The pandemic has fueled an unprecedented increase in the growth of new buyers and reactivated lapsed buyers. We have also seen a higher than recent historic growth rate of new sellers. If we lose those buyers, or sellers, due to the abatement of pandemic restrictions or otherwise, our financial performance and growth could be harmed. Even if we are able to attract new buyers and sellers to replace the ones that we lose, we may not be able to do so at 2020 levels, they may not maintain the same level of activity, and the GMS and revenue generated from new buyers and sellers may not be as high as the GMS and revenue generated from the ones who leave our marketplaces. If we are unable to retain existing buyers and sellers and attract new buyers and sellers who contribute to an active community, our business, financial performance, and growth could be harmed.

Additionally, the demand for the goods listed in our marketplaces is dependent on consumer preferences which can change quickly and may differ across generations and cultures, or due to other macro events. If demand for the goods that our sellers offer declines, we may not be able to attract and retain our buyers and our business could be harmed. A shift in trends away from socially-conscious consumerism or unique or vintage goods, could also make it more difficult to attract new buyers and sellers. Our growth would also be harmed if the shift from brick and mortar retail to e-commerce does not continue, or reverses when the COVID-19 pandemic abates. We believe that many new buyers and sellers find us by word of mouth and other non-paid referrals from existing buyers and sellers. If existing buyers do not find our platform appealing, whether because of a negative experience, lack of competitive shipping costs, delayed shipping times, inadequate customer service, lack of buyer-friendly features, declining interest in the nature of the goods offered by our sellers, or other factors, they may make fewer purchases and they may stop referring others to us. Likewise, if existing sellers are dissatisfied with their experience on our platform, or feel they have more attractive alternatives, they may stop listing items in our marketplaces and using our services and may stop referring others to us. Under any of these circumstances, we may have difficulty attracting new buyers and sellers without incurring additional expense.

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

A small portion of buyers complain to us about their experience on our platform. As a pure marketplace, our sellers manage their shops, most policies, products and product descriptions, shipping and returns. As a result, we may not have the ability to control important aspects of buyers' experiences on our platform. For example, buyers may report that they have not received the items that they purchased, that the items received were not as represented by a seller, or that a seller has not been responsive to their questions. Similarly, we occasionally identify sellers who are unable to fulfill orders in a time frame or manner consistent with buyer expectations. Trending sellers may experience an influx of orders that may be beyond their ability to fulfill in a timely manner. For example, a subset of sellers who offered cloth masks during 2020 may have experienced periods of high activity beyond their ability to fulfill as a small business. While we have procedures designed to mitigate spikes in orders, we cannot guarantee those procedures will be effective.

Negative publicity and sentiment generated as a result of these types of complaints, or any associated enforcement action taken against sellers, could reduce our ability to attract and retain our sellers and buyers or damage our reputation. We take action against sellers who we are aware may have violated our policies. However, our actions may be insufficient, may not be timely, and may not be effective in creating a good purchase experience for our buyers.

As our marketplaces grow, our controls over fraud and policy violations are important to maintaining user trust, but they may not be adequate and may not be sufficient to keep up with quickly-shifting techniques used by those attempting to undertake fraudulent activity on our platform. While we regularly update our processes for handling complaints and detecting policy violations, these processes are by their nature imperfect in a dynamic, quickly growing marketplace, and include risk to us, our sellers, and our buyers from both under-enforcement and over-enforcement.

A perception that our levels of responsiveness and support for our sellers and buyers are inadequate could have similar results. In some situations, we may choose to reimburse our buyers for their purchases to help avoid harm to our reputation. While we take steps such as requiring reserves, including to cover such reimbursements, from some sellers based on indicia they may not be able to fulfill orders, we may not be able to recover the funds we expend for those reimbursements. When we do recover funds used to reimburse buyers from sellers, it may increase general seller dissatisfaction and reduce their desire to continue selling using our platform. Although we are focused on enhancing customer service, our efforts may be unsuccessful and our sellers and buyers may be disappointed in their experience and not return.

Anything that prevents the timely processing of orders or delivery of goods to our buyers could harm our sellers. Service interruptions and delivery delays may be caused by events that are beyond the control of our sellers, such as interruptions in order or payment processing, interruptions in sellers' supply chain, transportation disruptions, natural disasters, inclement weather, terrorism, public health crises, or political unrest. For example, many countries continue to experience delays in shipping due to the COVID-19 pandemic. If buyers have a negative purchase experience, whether due to delay or other reasons, our reputation could be damaged.

Our business depends on third party services and technology which we utilize to maintain and scale the technology underlying our platform and our business operations.

Our business operations are dependent upon a number of third-party service providers, such as cloud service providers, marketing platforms and providers, payments and shipping providers, and contingent labor teams, and network and mobile infrastructure providers. Any disruption in their services, any failure on their part to deliver their services in accordance with our scale and expectations, or any failure on our part to maintain appropriate oversight on these third-party providers during the course of our engagement with them, could significantly harm our business.

We are unable to exercise significant oversight over some of these providers, which increases our vulnerability to their financial conditions and to problems with the services they provide, such as technical failures, deprecation of key services, privacy or security concerns. Our efforts to update our infrastructure or supply chain may not be successful as we may not sufficiently distribute our risk across providers or geographies or our efforts to do so may take longer than anticipated. If we experience failures in our technology infrastructure or supply chain or do not expand our technology infrastructure or supply chain successfully, then our ability to run our marketplaces could be significantly impacted, which could harm our business.

Our business depends on continued and unimpeded access to third party services, platforms and infrastructure that we rely upon to maintain and scale our platform.

Our sellers and buyers rely on access to the internet or mobile networks to access our marketplaces. 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 addition, we could face discriminatory or anticompetitive practices that could impede both our and our sellers' growth prospects, increase our costs, and harm our business.

Outside of the United States, it is 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 sellers and buyers may be adversely affected and we may not be able to grow our business as we anticipate.

In addition, our sellers rely on continued and unimpeded access to postal services and shipping carriers to deliver their goods reliably and timely to buyers. As a result of the COVID-19 pandemic and other factors, our sellers have experienced increased delays in delivery of their goods. If these shipping delays continue or worsen, or if shipping rates increase significantly, our sellers may have increased costs, and/or our buyers may have a poor purchasing experience and may lose trust in our marketplaces, which could negatively impact our business, financial performance, and growth.

Our payments systems have both operational and compliance risks, including in-house execution risk, dependency on third-party providers, and a complex landscape of evolving laws, regulations, rules, and standards.

Our buyers primarily pay for purchases using our payments services (i.e., Etsy Payments and Reverb Payments) or PayPal, and in the United States, may pay in installments with Klarna. In the United States and other countries where our payments services are available, our sellers accept various forms of payments such as credit cards, debit cards, gift cards, PayPal, Google Wallet, and Apple Pay. We plan to invest ongoing internal resources into our payments tools and infrastructure to maintain existing availability, expand into additional markets, and offer new payment methods and tools to our buyers and sellers. If we fail to invest adequate resources into our payments platform, or if our investment efforts are unsuccessful or unreliable, our payments services may not function properly, keep pace with competitive offerings, or comply with applicable laws and regulatory requirements, any of which could negatively impact their usage and our marketplaces, as well as our trusted brand, which, in turn, could adversely affect our GMS and results of operations.

We rely upon third-party service providers to perform key components of our payments platform, including payments processing and payments disbursing, compliance, currency exchange, identity verification, sanctions screening, and fraud analysis. If these service providers do not perform adequately, or if our relationships with these service providers were to change or terminate, it could negatively affect our sellers' ability to receive orders or payments, our buyers' ability to complete purchases, and our ability to operate our payments program, including maintaining certain compliance measures, including fraud prevention and detection tools. This could decrease revenue, increase costs, lead to potential legal liability, and negatively impact our brand and business. If we (or a third-party payment processor) suffer a security breach affecting payment card information, we could be subjected to fines, penalties and assessments arising out of the major card brands' rules and regulations, contractual indemnification obligations or other obligations contained in merchant agreements and similar contracts, and we may lose our ability to accept payment cards as payment for our services and our sellers' goods and services.

In addition, we and our third-party service providers may experience service outages from time to time that negatively impact payments on our platform. We have in the past experienced, and may in the future experience, such payments-related service outages and, if we are unable to promptly remedy or 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, or those of our sellers, could increase, and it could negatively impact our sellers' businesses or our business.

Further, our ability to expand our payments services into additional countries is dependent upon the third-party providers we use to support these services. As we expand the availability of our payments services to additional markets or offer new payment methods to our sellers and buyers in the future, we, along with our sellers, may become subject to additional and evolving regulations, compliance requirements, and may be exposed to heightened fraud risk, which could lead to an increase in our operating expenses.

Various laws and regulations govern payments, and these laws 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 determining whether various licensing and registration laws relating to payments apply to us as our business strategy and operations evolve. 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, result in liabilities, cause us significant reputational damage, or force us to stop offering our payments services in certain markets. Additionally, changes in payment regulation may occur that could render our payments systems non-compliant and/or less profitable.

Further, through our agreements with our third-party payments service providers, we are and could be subject to evolving rules and certification requirements (including the Payment Card Industry Data Security Standard), or other contractual requirements that may materially negatively impact our payments business. Failure to comply with these rules and requirements could impact our ability to meet our contractual obligations with our third-party payment processors and could result in potential fines or negatively impact our relationship with our third-party payments processors.

We are also subject to rules governing electronic funds transfers. Any change in these rules and requirements, including as a result of a change in our designation by major payment card providers, could make it difficult or impossible for us to comply and could require a change in our business operations. 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 us or our sellers, which may negatively impact payments on our platform, usage of our payments services, and our marketplaces.

Our business could be adversely affected by economic downturns, natural disasters, public health crises such as the COVID-19 pandemic, political crises, geopolitical changes or other similar 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 on our platform may be reduced. This would cause our Marketplace and Services revenue to decline and adversely impact our business. For example, the ongoing COVID-19 pandemic has caused significant uncertainty and volatility in the global economy, and we have seen significant and rapid shifts in consumer purchasing behavior as this pandemic has evolved, particularly as it relates to items sought on Etsy. It is difficult to predict how our business might be impacted by changing consumer spending patterns.

If recent trends supporting self-employment, and the desire for supplemental income were to reverse, the number of sellers offering their goods in our marketplaces and the number of goods listed in our marketplaces could decline. In addition, currency exchange rates may directly and indirectly impact our business. If the U.S. dollar strengthens or weakens against foreign currencies, particularly if there is short term volatility, our foreign currency denominated GMS and revenue, when translated into U.S. dollars, could fluctuate significantly. Currency exchange rates may also dampen demand for cross-border purchases, which could impact GMS and revenue. For the three months ended March 31, 2021, approximately 74% of our GMS was denominated in U.S. dollars.

Any events causing significant disruption or distraction to the public or to our workforce, such as natural disasters and other adverse weather and climate conditions, public health crises, political instability or crises, terrorist attacks, war, social unrest, 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. These events, if they occur, may impact buyer demand for discretionary goods, impact sellers’ ability to run their businesses on our marketplaces and ship their goods, and impact our ability to execute on our strategy, any of which could negatively impact our business and financial performance.

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 and money transmission, intellectual property, product liability, consumer protection, online platform liability, e-commerce marketplace regulation, labor and employment laws, and taxation of income, goods, and services);
- conforming to local business or cultural norms;
- barriers to international trade, such as tariffs, customs, or other taxes, or, when applicable, cross-border limits placed on U.S. technology companies;
- uncertainties on the continuing impact of pandemic-related quarantines, closures, delayed or shut down delivery services, and movement restrictions on operations, and geopolitical events such as natural disasters, pandemics, terrorism, and acts of war;
- varying levels of internet, e-commerce, and mobile technology adoption and infrastructure;
- potentially heightened risk of fraudulent or other illegal 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 of the U.S. Treasury Department, and similar laws and regulations in other jurisdictions;
- our ability to enforce contracts, our terms of use and policies, and intellectual property rights in jurisdictions outside the United States;
- fluctuations of foreign exchange rates; and

- uncertainties and instability in U.K. and E.U. markets caused by ongoing negotiations of cross-border service agreements triggered by Brexit.

Our 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 our sellers are not, our business could be adversely affected.

Our ability to recruit and retain a diverse group of employees is important to our success.

Our ability to attract, retain, and motivate a diverse group of employees, including our management team, is important to our success. We strive to attract, retain, and motivate our employees, from our office administrators to our engineers, 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, particularly in the uncertainty of the current macroeconomic environment. We may not meet our impact goal of building diverse and inclusive workforces that are broadly representative of their communities.

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

- skepticism regarding our ability to continue to accelerate GMS growth in the future;
- continuing ability to offer competitive compensation and benefits;
- evolving expectations regarding the ability to work remotely;
- enhancing engagement levels among existing employees and supporting their work-life balance;
- attracting high quality talent in a timely fashion;
- retaining qualified employees who support our mission and guiding principles, and continuing to do so in a remote or hybrid work environment;
- continuing to find promotion opportunities to retain key employees for leadership positions;
- hiring employees in multiple locations globally, and building a diverse equitable and inclusive workforce; and
- responding to competitive pressures and changing business conditions in ways that do not divert us from our guiding principles.

Filling key strategic roles, including engineering and product management, particularly in New York City, San Francisco, Dublin, and Chicago is challenging. Qualified individuals are limited and in high demand, and we may incur significant costs to attract, develop, retain 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, particularly in this volatile macroeconomic environment, it may adversely affect our ability to recruit and retain highly skilled employees.

Our employees are currently almost fully remote. As stay-at-home orders and movement restrictions are lifted and we contemplate reopening our offices, we have begun to reexamine our long term remote versus in-office model. If our needs are not aligned with our employees’ preferences, it may adversely affect our ability to recruit and retain employees. If we do move to a more remote work model, it may negatively impact our company culture.

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. Further, if members of our management and other key personnel in critical functions across our organization are unable to perform their duties, we may not be able to execute on our business strategy and/or our operations may be negatively impacted. 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.

If we experience increased voluntary attrition in the future, and/or if we are unable to attract and retain qualified employees in a timely fashion, particularly in critical areas of operations such as engineering, we may not achieve our strategic goals and our business and operations could be harmed.

We may be unable to adequately protect our intellectual property.

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 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, patent filings may not be adequate alone to protect our intellectual property. From time to time we acquire intellectual property from third parties, but these acquired assets, like our internally developed intellectual property, may be held invalid, be unenforceable, or may otherwise not be effective in protecting our platform. We rely on trade secret protection for parts of our technology and 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 or licensing 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, particularly as to technologies used in e-commerce, 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 may experience fluctuations in our tax obligations and effective tax rate.

We are subject to a variety of taxes and tax collection obligations in the United States and in numerous other foreign jurisdictions. We record tax expense, including indirect taxes, based on current tax payments and our estimates of future tax payments, which may include reserves for estimates of probable or likely settlements of tax audits. We may recognize additional tax expense and be subject to additional tax liabilities, including tax collection obligations, due to changes in tax law, such as digital services taxes, or online sales taxes. In 2021, President Joseph R. Biden, released the Made in America Tax Plan that proposed several significant modifications to key provisions, as well as introduced new provisions, to the U.S. internal revenue code. Although it is uncertain if some or all of the identified provisions will be enacted, a change in U.S. tax law may materially and adversely impact our income tax liability, provision for income taxes, and effective tax rate. We may also be subject to increased requirements for marketplaces to report, collect, remit, and hold liability for their customers’ direct and indirect tax obligations, or as a result of changes to regulations, administrative practices, outcomes of court cases, and changes to the global tax framework. Our effective tax rate and cash taxes paid in a given financial statement period may be adversely impacted by results of our business operations including changes in the mix of revenue among different jurisdictions, acquisitions, investments, entry into new geographies, the relative amount of foreign earnings, changes in foreign currency exchanges rates, changes in our stock price, intercompany transactions, changes to accounting rules, expectation of future profits, changes in our deferred tax assets and liabilities and our assessment of their realizability, and changes to our ownership or capital structure. Fluctuations in our tax obligations and effective tax rate could adversely affect our business.

In the ordinary course of our business, there are numerous transactions and calculations for which the ultimate tax determination is uncertain. Although we believe that our tax positions and related provisions reflected in the financial statements are fully supportable, we recognize that these tax positions and related provisions may be challenged by various tax authorities. These tax positions and related provisions are reviewed on an ongoing basis and are adjusted as additional facts and information become available, including progress on tax audits, changes in interpretation of tax laws, developments in case law, and closing of statute of limitations. To the extent that the ultimate results differ from our original or adjusted estimates, our effective tax rate can be adversely affected.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which we operate. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by us. In addition, tax authorities periodically review income tax returns filed by us and can raise issues regarding its filing positions, timing and amount of income and deductions, and the allocation of income among the jurisdictions in which we operate. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. Any adjustments as a result of any examination, may result in additional taxes or penalties against us. If the ultimate result of these audits differs from original or adjusted estimates, they could have a material impact on our effective tax rate and tax liabilities.

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.

The terms of our debt instruments may restrict our ability to pursue our business strategies.

We do not currently have any obligations outstanding under our credit facility. While the indentures governing our outstanding convertible notes do not include material restrictions on our ability to pursue our business strategy, our credit facility requires us to comply with, and future debt instruments may require us to comply with, various covenants that limit our ability to take actions such as:

- disposing of assets;
- completing mergers or acquisitions;
- incurring additional indebtedness;
- encumbering our properties or assets;
- paying dividends, making other distributions or repurchasing our common stock;
- making specified investments; and
- engaging in transactions with our affiliates.

These restrictions could limit our ability to pursue our business strategies. If we default under our credit facility and if the default is not cured or waived, the lenders could terminate their commitments to lend to us and cause any amounts outstanding to be payable immediately. Such a default could also result in cross defaults under other debt instruments. Moreover, any such default would limit our ability to obtain additional financing, which may have an adverse effect on our cash flow and liquidity.

Our insurance may not cover or mitigate all the risks facing our business.

While we have insurance coverage for most aspects of our business risk, this insurance coverage may be incomplete or inadequate, or in some cases may not be available. Our business has evolving risks that may be unpredictable. For certain risks we face, we may be required to, or may elect to, self-insure or rely on insurance held by third parties, legal defenses and immunities, indemnification agreements or limits on liability, which may be insufficient.

For example, we may not have adequate insurance coverage related to the actions of third party sellers on our platform. In evolving areas such as platform products liability, recent decisions such as *Bolger v. Amazon* suggest that platforms, if they undertake certain types of retailer-like activity, could be responsible for some or all liability for the actions by, or products of, sellers on their platform, even if the platform has little or no control over those sellers' actions or products. In some circumstances, a platform might be held liable for violations by sellers or their products, intellectual property laws, privacy and security laws, product regulation, or consumer protection laws. Court decisions and regulatory changes in these areas may shift quickly, both in the United States and worldwide, and our insurance may be inadequate or unavailable to protect us from existing or newly developing legal risks. Finally, while some sellers on our platform may be insured for some or all of these risks, many small businesses do not carry any or sufficient insurance, and, even if a seller is insured, the insurance may not cover the relevant loss.

These factors may lead to increased costs for insurance, our increased liability, increased liability or requirements on sellers on our platform, changes to our marketplace or business model, or other damage to our brand and reputation.

Strategic Risks Related to Our Business and Industry

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

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

We compete for sellers with marketplaces, retailers, and companies that sell software and services to small businesses. For example, 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, Google, 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, Instagram, and TikTok. She may also sell wholesale directly to traditional retailers, including large national retailers, who discover her goods in our marketplaces or otherwise.

We also compete with companies that sell software and services to small businesses, enabling a seller to sell from her own website or otherwise run her business independently of our platform, or enable her to sell through multiple channels, such as BigCommerce, Wix, and Shopify.

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

- the value of our brand and its awareness;
- effectiveness of our marketing;
- the global scale of our marketplaces and the breadth of our online presence;
- our tools, education, and services, which support a seller in running her business;
- the number and engagement of buyers;
- our policies and fees;
- the ability of a seller to scale her business;
- the effectiveness of our mobile apps;
- the strength of our community; and
- our mission.

In addition, we compete with retailers for the attention of buyers. A buyer has the choice of shopping with any online or offline retailer, including large e-commerce marketplaces, such as Amazon, eBay, or Alibaba, national retail chains, such as West Elm, Walmart, or Target, local consignment and vintage stores, social commerce channels like Instagram or Facebook, event-driven platforms and vertical experiences like Zola and Wayfair, resale commerce and streaming video commerce sites and apps, and 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 our sellers to match. As pandemic-related restrictions on movement ease, competition may intensify as buyers return to traditional brick and mortar retail stores.

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

- the breadth and quality of items that sellers list in our marketplaces;
- the ease of finding items;
- the value of our brand, its trust and awareness;
- the person-to-person commerce experience;
- customer service;
- our reputation for trustworthiness;
- the effectiveness of our mobile apps;
- the availability of timely, fair, and free shipping offered by Etsy sellers to Etsy buyers;
- ease of payment;
- localization and experiences targeted based on regional preferences, 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. Large, widely adopted platforms may benefit from significant user bases, access to user or industry-wide data, the ability to unilaterally set policies and standards, and control over complementary services such as fulfillment, advertising or on-platform apps or e-commerce transactions. To the extent Etsy and our sellers may rely on these competitors' services, they may unintentionally reduce our ability to service our users, our ability to obtain analytics or information to optimize advertising or intentionally seek to disintermediate Etsy.

We believe that it is, and that it should continue to be, relatively easy for new businesses to create online commerce offerings or tools or services that enable entrepreneurship. However, as the technology space is increasingly subject to regulation, there is a risk that legislation, and regulatory or competition inquiries, even if focused on large, widely adopted platforms, may inadvertently impede smaller platforms and small businesses, including us and our sellers. For example, legislation and inquiries may result in obligations with which only large platforms are situated to comply. If legislation or regulatory inquiries, even if focused on other entities, requires us to expend significant resources in response or results in the imposition of new obligations, our business and results of operations could be adversely affected.

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 and results of operations 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 sellers and 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 preferences, 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. Our sellers and 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 invest in and experiment with new offerings or changes to our platform, our sellers and 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 sellers and buyers, then our competitive position and growth prospects may be harmed. In addition, new offerings may not drive the GMS or revenue that we anticipate, may have lower margins than we anticipate or than existing offerings, and our revenue from the new offerings may not be enough to offset the cost of developing and maintaining them, which could adversely affect our business, financial performance, and growth.

If the widely adopted mobile, social, search, and/or advertising solutions that we, our sellers and our buyers rely on as part of our key offering are no longer available or effective, or if access to these major platforms is limited, the use of our marketplaces could decline.

We are dependent on widely-adopted third party platforms to reach our customers, such as popular mobile, social, search, and advertising offerings. If we are not able to deliver a rewarding experience on these platforms, or if our or our sellers' access to these platforms is limited, or if these large platforms implement features that compete with us or our sellers, then our products and marketing efforts may suffer, and our sellers' ability to manage and scale their business may be harmed. In addition, we may not be able to deliver a rewarding experience, we may have limited access to, or we may be unable to invest significant time and resources towards, integration with and offering our services through new or updated devices, operating system versions, social networks, or search platforms (including Internet of Things ("IoT") based or voice based platforms). If our solutions and integrations are ineffective or unavailable, then our products and marketing efforts may suffer, and our sellers' ability to manage and scale their business may be harmed. As a consequence, our sellers may choose to sell elsewhere, and our business may suffer.

Conversion rates differ between web, mobile web, and mobile app traffic. If visits to our platform from sources with lower conversion rates (such as mobile web) were to increase as a percentage of overall visits, it could adversely impact our conversion rate and reduce GMS on our platform which could adversely affect our business, financial performance, and growth.

The success of our marketplaces could also be harmed by factors outside our control, such as actions taken by providers of mobile and desktop operating systems, social networks, or search and advertising platforms, including:

- policy changes that interfere with, add tolls to, or otherwise limit our ability to provide users with a full experience of our platform, such as for our mobile apps or social network presence;
- unfavorable treatment received by our platform, especially as compared to competing platforms, such as the placement of our mobile apps in a mobile app download store;
- increased costs to distribute or use our platform via mobile apps, social networks, or established search and advertising systems;
- 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;

- changes to social networks that degrade the e-commerce functionality, features, or marketing of us or our sellers' shops and products; or
- implementation and interpretation of regulatory or industry standards by these widely adopted platforms that, as a side effect, degrade the e-commerce functionality, features, or marketing of us or our sellers' shops and products.

If sellers and buyers encounter difficulty accessing or using our marketplaces through these widely adopted access providers, our business, financial performance, and growth may be adversely affected.

Expanding our operations 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.

We are focused on growing our business both inside and outside of the United States. Although we have a significant number of sellers and buyers outside of the United States, we are a U.S.-based company with less experience developing local markets internationally and may not execute our strategy successfully. Operating outside of the United States also requires significant management attention, including managing operations and people over diverse geographic areas with varying cultural norms and customs, and adapting our platform and business operations to local markets.

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. If jurisdictions become increasingly fragmented, with additional regulation of small sellers and platforms, tariffs and customs that increase the cost or complexity of cross-border trade, whether on the seller's sourcing of materials or between the seller and buyer, our business could be adversely impacted. In addition, varying quarantines, closures, delayed or terminated delivery services, and movement restrictions related to the ongoing COVID-19 pandemic may interfere with our international growth strategy.

Our success outside the United States also depends upon our ability to attract sellers and buyers from the same countries in order to enable the growth of local markets. An inability to develop our community globally or to otherwise grow our business outside of the United States in a cost-effective manner 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. 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, along with regulations that may favor local companies. Some of our competitors may also be able to develop and grow internationally more quickly than we will.

Despite our execution efforts, the goods that sellers list on our sites 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 and Reverb brands as buyers in the United States and may not perceive us as relevant or trustworthy. Also, visits to our marketplaces from 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.

Continued international expansion may also require significant financial investment. For example, Etsy has made initial investments to explore growth opportunities in India, a dynamic market where we have limited operating experience. To facilitate continued international expansion, we 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.

We may expand our business through acquisitions of other businesses or assets or strategic partnerships and investments, 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, or enter into strategic partnerships, in the future. We may not realize the anticipated benefits of our acquisitions or any partnerships, and possible future acquisitions or relationships may disrupt our business and divert management's time and attention. 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. Any future acquisitions or partnerships may result in unforeseen operational difficulties and expenditures associated with:

- integrating new businesses and technologies into our infrastructure;
- clearing any required regulatory review that may be complex, costly, time consuming, or place additional requirements on the business;
- implementing growth initiatives;

- integrating administrative functions;
- hiring, retaining, and integrating key employees;
- supporting and enhancing morale and culture;
- retaining key customers, merchants, vendors, and other key business partners;
- maintaining or developing controls, procedures, and policies (including effective internal control over financial reporting and disclosure controls and procedures, as well as information privacy controls); and
- assuming liabilities related to the activities of the acquired business before and after the acquisition, including liabilities for violations of laws and regulations, intellectual property infringement, commercial disputes, cyber attacks, taxes, and other matters.

We also may issue additional equity securities in connection with an acquisition or partnership, which could cause dilution to our stockholders. Finally, acquisitions or partnerships could be viewed negatively by analysts, investors, or the members of our community.

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

Maintaining and promoting awareness of our marketplaces and services is important to our ability to attract and retain sellers and buyers. One of the key parts of our strategy for the Etsy marketplace is to bring more new buyers to the marketplace and create more habitual buyers by inspiring more frequent purchases across multiple categories and purchase occasions. We continue to iterate on and invest in our marketing strategies, which may not succeed for a variety of reasons, including our inability to execute and implement our plans.

Our marketing efforts currently include search engine optimization, search engine marketing, affiliate marketing, display advertising, as well as social media, mobile push notifications, and email marketing. If we fail to scale and deliver an effective return on investment in any of these marketing efforts, it may harm our business. We also engage with celebrities and influencers as part of our marketing efforts, and our perceived affiliation with these individuals could cause us brand or reputational damage in the event they undertake actions inconsistent with our brand and values.

Additionally, we invest significantly in brand advertising via channels such as television and digital video advertising. If we do not produce effective content or purchase effective air time and placement for that content, it could fail to deliver a return on our investment, and damage our brand and/or business. Many of our marketing efforts include our sellers and products from their shops selected via automated systems. These automated systems may not always operate effectively. While both our manual and automated systems have tools and procedures designed to account for our and our partners' policies, despite our best efforts, we may inadvertently include in our marketing efforts sellers or their products inconsistent with our policies, brand and values, which could result in failure to deliver a return on our investment, media or regulatory scrutiny, and damage to our brand and/or business.

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, alter analytics or search engine optimization data available to us or make other changes to the way results are displayed, which can negatively affect the placement of links to our marketplaces and reduce the number of visits or otherwise negatively impact our marketing efforts.

We also obtain a significant number of visits from social media platforms such as Facebook, Instagram, and Pinterest. Search engines, social networks, 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 (including marketing services for our sellers), GMS, and revenue. Etsy-provided controls for users to limit third party advertising features, the growing use of online ad-blocking software and technological changes to browsers and mobile operating systems, may impact the effectiveness of our marketing efforts because we may reach a smaller audience, fail to bring more buyers, or fail to increase frequency of visits to our platform. In addition, ongoing legal and regulatory changes in the data privacy sphere, such as the E.U. General Data Protection Regulation ("GDPR") the California Consumer Privacy Act of 2018 ("CCPA"), and the California Privacy Rights Act of 2020 ("CPRA"), 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 marketing. If we are unable to successfully deliver emails to our sellers and buyers, if our email subscription tools do not function correctly, or if our sellers and 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. As e-commerce, search, and social networking, as well as related regulatory regimes, evolve, we must continue to evolve our marketing tactics and technology accordingly and, if we are unable to do so, our business could be adversely affected.

Some providers of consumer devices, mobile or desktop operating systems, 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. Similarly, our vendors, particularly those providing advertising and analytics products and services have, and may continue to, modify their products and services based on legal and technical changes relating to privacy in ways that could reduce the efficiency of our marketing efforts and our access to data about use of our platform. Any reduction in our ability to make effective use of such technologies could harm our ability to personalize the experience of buyers, increase our costs, and limit our ability to attract and retain our sellers and buyers on cost-effective terms. As a result, our business and results of operations could be adversely affected.

Enforcement of our marketplace policies may negatively impact our brand, reputation, and/or our financial performance.

We maintain and enforce policies that outline expectations for users while they engage with our services, whether as a seller, a buyer, or a third party. Additionally, we prohibit a range of items on our marketplaces, including (but not limited to): drugs, alcohol, tobacco, weapons, endangered animal products, hazardous materials, recalled items, highly-regulated items, items violating intellectual property rights of others, illegal products, pornography, items from federally-sanctioned jurisdictions, hateful content, and items that promote or glorify violence.

We enforce these policies in order to uphold the safety and integrity of our marketplaces, engender trust in the use of our services, and encourage positive connections among members of the community. We strive to enforce these policies in a consistent and principled manner that is transparent and explicable to stakeholders. However, even with a principled and objective approach, policy enforcement is a combination of human and technological review. As a result, there could be errors, it could be subject to different or inconsistent regional consensus or regulatory standards in different jurisdictions, or it could be perceived to be arbitrary, unclear, or inconsistent. This could lead to negative public perception of our enforcement, distrust from members, or lack of confidence in the use of our services, and could negatively impact our brand reputation. In particular, certain enforcement decisions, even those we deem necessary for the health and safety of our marketplaces, may be received negatively by stakeholders or the public, such as:

- we may choose to limit or prohibit the sale of items in our marketplaces based on our policies, even though we could benefit financially from the sale of those items;
- from time to time, we may revise our policies in ways that we believe will enhance trust in our platform, even though the changes may be perceived unfavorably, such as updates to the way we define handmade.

We are subject to risks related to our environmental, social and governance activities and disclosures.

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 ecological efforts (our “ESG metrics”). Our Impact strategy aims to create more economic opportunity for our stakeholders, ensure equitable access to the opportunities we create, and build long-term resilience by fostering responsible resource use and reducing our carbon footprint. We have also elected to publicly share these ESG metrics and include them in this Annual Report on Form 10-K, and, as a result, our business may face heightened scrutiny for these activities. See “Business—Our Impact Strategy and Progress.” While selected metrics receive limited assurance from an independent third party, this is inherently a less rigorous process than reasonable assurance sought in connection with a financial statement audit and such review process may not identify errors and may not protect us from potential liability under the securities laws.

If we do not demonstrate progress against our Impact strategy or if our Impact strategy is not perceived to be adequate, our reputation could be harmed. We could also damage our reputation and the value of our brand if we fail to act responsibly in the areas in which we report and demonstrate that our commitment to our Impact strategy enhances our overall financial performance.

Any harm to our reputation resulting from setting these metrics or our failure or perceived failure to meet such metrics could impact employee engagement and retention, the willingness of our buyers and sellers and our partners and vendors to do business with us, or investors’ willingness to purchase or hold shares of our common stock, any of which could adversely affect our business, financial performance, and growth.

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.

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 the strategy, our ability to iterate in a rapidly evolving e-commerce landscape, maintain our pace of product experiments coupled with the success of such initiatives, our ability to 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, if the public perception is that we are not executing on our strategy, or if our market opportunity is not as large as we have estimated, it could adversely affect our business, financial performance, and growth.

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 our 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, repurchasing our stock, 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. Weakness and volatility in capital markets and the economy in general could limit our access to capital markets and increase our costs of borrowing.

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 “2018 Notes”), the 0.125% Convertible Senior Notes due 2026 we issued in September 2019 (the “2019 Notes”) and the 0.125% Convertible Senior Notes due 2027 we issued in August 2020 (the “2020 Notes” and together with the 2018 Notes and the 2019 Notes, 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. 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. 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 use in our business or could require us to obtain additional financing to fund the repurchase. 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. Based on the daily closing prices of our stock during the quarter ended March 31, 2021, holders of the 2018 Notes and the 2019 Notes are eligible to convert their 2018 Notes and 2019 Notes, as applicable, during the second quarter of 2021. See “Note 7—Debt” in the Notes to Consolidated Financial Statements for more information on the 2018 Notes and 2019 Notes.

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.

Regulatory, Compliance, and Legal Risks

Failure to deal effectively with constantly evolving fraud or other illegal activity could harm our business.

We have adopted policies and procedures that are intended to ensure compliance with law, including, for example anti-corruption, anti-money laundering, export control, and trade sanctions requirements, and we have measures in place to detect and limit the occurrence of fraudulent and other illegal activity in our marketplaces, however, those policies, procedures, and measures may not always be effective. Further, the measures that we use to detect and limit the occurrence of fraudulent and other illegal activity must be dynamic and require significant investment and resources, particularly as our marketplaces increase in public visibility and size. Bad actors constantly apply continually evolving technologies and ways to commit fraud and other illegal activity, and regulations requiring marketplaces to detect and limit these activities are increasing. Our measures may not always keep up with these changes. If we fail to limit the impact of illegal activity in our marketplaces, we could be subject to penalties, fines, other enforcement actions and/or significant expenses and our business, reputation, financial performance, and growth could be adversely affected.

We rely upon third-party service providers to perform certain compliance services. If we or our service providers do not perform adequately, our compliance tools may not be effective, which could increase our expenses, lead to potential legal liability, and negatively impact our business.

Our brand may be harmed if third parties or members of our community use or attempt to use Etsy as part of their illegal or unethical business practices.

Our emphasis on our mission and guiding principles makes our reputation particularly sensitive to allegations of illegal or unethical business practices by our sellers or other members of our community. We expect our vendors to comply with our Vendor Code of Conduct. Our seller policies promote legal and ethical business practices. Etsy expects sellers to work only with manufacturers who comply with all applicable laws, who do not use child or involuntary labor, who do not discriminate, and who promote sustainability and humane working conditions. Although we seek to influence, we do not directly control our sellers, vendors, 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.

We may be subject to claims that items listed by sellers in our marketplace are counterfeit, infringing, illegal, harmful or otherwise violate our policies.

We frequently receive communications alleging that items listed in our marketplaces infringe upon 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 marketplaces, along with both proactive and reactive anti-counterfeiting measures that we use and continue to develop. We follow these procedures to review complaints and relevant facts to determine the appropriate action, which may include removal of the item from our marketplaces and, in certain cases, closing the shops of sellers who violate our policies.

Our procedures may not effectively reduce or eliminate our liability. For example, on the Etsy marketplace we use a combination of automatic and manual tools and depend upon human review in many circumstances. Our tools and procedures may be subject to error or enforcement failures and may not be adequately staffed, and we may be subject to an increasing number of erroneous or fraudulent demands to remove content. In addition, we may be subject to civil or criminal liability for activities carried out by 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 laws such as the Digital Millennium Copyright Act § 512 et. seq., we may benefit from statutory safe harbor provisions that protect us from copyright liability for content posted on our platform by sellers and buyers, and we rely upon user content platform protections under 47 U.S.C. § 230 (commonly referred to as CDA § 230), that limits most non-intellectual property law claims against Etsy based upon content posted by users on our platform. However, trademark and patent laws do not include similar statutory provisions, and limits on platform liability for these forms of intellectual property are primarily based upon court decisions. Similarly, laws related to product liability vary by jurisdiction, and the liability of marketplace platforms for products and services of sellers, while traditionally limited, is subject to increasing debate in courts, legislatures, and with regulators. These safe harbors and court rulings, including analogous ones in other state and international jurisdictions, may change unfavorably. Moreover, changes focused on actions by very large platforms that perform retailer-like functions may directly or indirectly also impact us, our sellers, buyers and vendors.

Proposed laws in Europe and the United States may change the scope of platform liability, and ongoing case law developments may unpredictably increase our liability as a platform for user activity. In that event, we may be held directly or secondarily liable for the intellectual property infringement, product compliance deficiencies, consumer protection deficiencies, privacy and data protection incidents, or regulatory issues of our sellers, including potentially for their conduct over which we have no control or influence.

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, harmful or unlawful goods or if legal changes result in us potentially being liable for actions by 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. These claims, or legal and regulatory changes, could require the removal of non-infringing, lawful or completely unrelated content, which could negatively impact our business and our ability to retain sellers. Moreover, public perception that unlicensed, counterfeit, harmful or unlawful items are commonly offered by sellers in our marketplaces, even if factually incorrect, could result in negative publicity and damage to our reputation.

We may be involved in litigation and regulatory matters that are expensive and time consuming and that may require changes to our strategy, the features of our platform and/or how our business operates.

In addition to intellectual property claims, we may become involved in other litigation matters, including consumer protection, product liability, security and privacy, commercial, or shareholder derivative lawsuits, either individually or, where available, on a class-action basis. We may become subject to heightened regulatory scrutiny, inquiries, or investigations, including with respect to our sellers, vendors or third parties, relating to broad, industry-wide concerns, such as antitrust, product liability, and privacy, that could lead to increased expenses or reputational damage. For example, while we have stated on our platform that items offered by sellers on Etsy, such as masks and hand sanitizers, are not medical-grade, and that our sellers cannot make substantive medical or health claims, we may nevertheless be subject to claims based in whole or in part on the actions of sellers in violation of that directive.

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 or regulatory action to which we are a party, with or without merit, may result in an unfavorable judgment. We also may decide to settle lawsuits or regulatory actions, even if non-meritorious, 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 limit certain claims against us under our Terms of Use, including through requirements for arbitration, limits on class actions, limitations of liability, venue selection, and indemnification requirements. These requirements may be subject to differing interpretations and legal frameworks in different U.S. federal, state, and foreign jurisdictions or courts, and may have reduced or no enforceability in some jurisdictions. If these claim limitations are unavailable to us, it could significantly increase our costs, require significant resources across multiple jurisdictions, result in complex or inconsistent decisions, and subject us to forum shopping by third parties seeking jurisdictions amenable to their claims.

Actions brought against us may result in lawsuits, enforcement actions, injunctions, settlements, damages, fines, or penalties, which could have a material adverse effect on our financial condition or results of operations or require changes to our business. Although we establish accruals for our litigation and regulatory matters in accordance with applicable accounting guidance when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable, there may be a material exposure to loss in excess of any amounts accrued, or in excess of any loss contingencies disclosed as reasonably possible. Such loss contingencies may not be probable and reasonably estimable until the proceedings have progressed significantly, which could take several years and occur close to resolution of the matter.

Expanding and evolving regulations in the areas of privacy and user data protection could create technological, economic and complex cross-border business impediments to our business and those of our sellers.

We collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, and share personal information, confidential information and other potentially protected information necessary to provide our service, to operate our business, for legal and marketing purposes, and for other business-related purposes.

Data protection has become a significant issue in the United States, countries in the European Union, and in many other countries in which we operate. 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, our sellers, our vendors and other third parties collect, use, and share personal information and other proprietary or confidential information. Compliance with these changing regulations have necessitated some specific product changes for our non-U.S. activities, and required additional compliance obligations for us and for our relationships with sellers, vendors, and other third parties.

In the European Union, the GDPR contains strict requirements for processing the personally identifiable information of individuals residing in the European Economic Area (“EEA”), Switzerland and (in a form frozen as of December 31, 2020 and as further separately domestically amended), the United Kingdom. The GDPR seeks to harmonize the data protection regulations throughout these jurisdictions. The regulation contains numerous requirements and changes from previous 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 European Union, 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 email marketing, compliance requirements related to our sellers, vendors and third parties, and stronger regulatory enforcement regimes. The GDPR is subject to changing interpretations due to decisions of data protection authorities, courts, and related legislative efforts both E.U.-wide and in particular jurisdictions. 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 our worldwide community of sellers. We may experience difficulty retaining or obtaining new E.U. sellers, or current and new sellers may limit their selling into the European Union, 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 our sellers are independent businesses, it is possible that a privacy authority could deem us jointly and severally liable for actions of our sellers or vendors, 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.

In the United States, rules and regulations governing data privacy and security include those promulgated under the authority of the Federal Trade Commission Act, the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, California’s CCPA (effective January 1, 2020) and CPRA (effective January 1, 2023), and other state and federal laws relating to privacy, consumer protection, and data security. The CCPA and CPRA introduce new requirements regarding the handling of personal information of California consumers and households, including compliance and record keeping obligations, the right to request access to and deletion of their personal information, and the right to opt out of the sale of their personal information and provides a private right of action and statutory damages for data breaches.

Other jurisdictions in the United States are beginning to expand existing regulations, or propose laws similar to the CCPA. If more stringent privacy legislation arises in the United States, it could increase our potential liability and adversely affect our business, results of operations, and financial condition. Additionally, other countries outside of Europe have enacted or are considering enacting similar cross-border data transfer restrictions and laws requiring local data residency, and strict limitations to the processing of personal information, which could increase the cost and complexity of delivering our services and operating our business. In the past year, for example, Brazil enacted the General Data Protection Law, New Zealand enacted the New Zealand Privacy Act, China released its draft Personal Information Protection Law, and Canada introduced the Digital Charter Implementation Act.

GDPR, CCPA, and similar laws coming into effect in other jurisdictions may continue to change the data protection landscape globally, may be potentially inconsistent or incompatible, and could result in potentially significant operational costs for internal compliance and risk to our business. Some of these requirements may introduce friction into the buying and selling experience on our platform and may impact the scope and effectiveness of our marketing efforts, which could negatively impact our business and future outlook. Beyond GDPR and CCPA/CPRA, individual jurisdictions continue to pass laws related to data protection, such as data privacy and data breach notification, resulting in a diverse set of requirements across states, countries, and regions. Non-compliance with these laws could result in proceedings against us by one or more data protection authorities, other public authorities, third parties, or individuals. Under GDPR alone, noncompliance could result in fines of up to 20 million Euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater. 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).

In addition, E.U. data protection laws, including the GDPR, also generally prohibit the transfer of personal information from Europe to the United States and most other countries unless the recipient country has been deemed to have adequate privacy protections in place to protect the personal information. Parties transferring protected personal data to jurisdictions deemed inadequate must establish a legal basis for, and implement specific safeguards for, such intra-party or inter-party transfers. A recent judgment of the Court of Justice of the European Union found a common basis for such transfers, the E.U.-U.S. Privacy Shield, insufficient, and a parallel arrangement with Switzerland may similarly be deemed insufficient. While Etsy did not rely upon Privacy Shield for cross-border transfers, Reverb previously had done so. While effective solutions may be available to permit these transfers, such as Standard Contractual Clauses (“SCCs”), continuing changes to the rules related to cross-border transfers may nonetheless impede Etsy and Reverb’s ability to effectively transfer data between jurisdictions with parties such as partners, vendors and users, or may make such transfers of personal data more costly. In particular, another recent decision and related European Commission guidance and updates to the SCCs may impose additional obligations on companies seeking to rely on the SCCs and may require significant expense and resources associated with compliance. For example, transfers with the United Kingdom might be deemed inadequate after its departure from the European Union and European Economic Area and require substantial expense and resources to comply with based upon adequacy mechanisms such as SCCs. Transfers by us or our vendors of personal information from Europe pursuant to SCCs may not comply with E.U. data protection law, may increase our exposure to the GDPR’s heightened sanctions for violations of its cross-border data transfer restrictions, and may result in lower sales on our platform because of difficulty of establishing a lawful basis for personal information transfers out of Europe.

We also publish privacy policies and other documentation regarding our collection, processing, use, and disclosure of personal data. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or may be perceived to have failed to do so. Moreover, despite our efforts, we may not be successful in achieving compliance, such as if our employees or vendors fail to comply with our published policies and documentation. Such failures can subject us to potential international, local, state, and federal action under both data protection and consumer protection laws. We are or may also be subject to the terms of our own and third party external and internal privacy and security policies, codes, representations, certifications, industry standards, publications and frameworks and contractual obligations to third parties related to privacy, information security, including contractual obligations to indemnify and hold harmless third parties from the costs or consequences of non-compliance with data protection laws, or other obligations.

Our sellers and vendors may be subject to similar privacy requirements, which may significantly increase costs and resources dedicated to their compliance with such requirements. We have varying contractual and other legal obligations to notify relevant stakeholders of security breaches related to us or, in some cases, our third-party service providers. Many jurisdictions have enacted laws requiring companies to notify individuals, regulatory authorities, and others of security breaches involving certain types of data in some circumstances. In addition, our agreements with certain stakeholders may require us to notify them in the event of such a security breach. Such mandatory disclosures, even if only related to actions of a third-party vendor, are costly, could lead to negative publicity, may cause our community members to lose confidence in the effectiveness of our security measures and require us to expend significant capital and other resources to respond to and/or alleviate problems caused by the actual or perceived security breach, and may cause us to breach customer contracts. Our contracts, our representations or industry standards, to varying extents, require us to use industry-standard or reasonable measures to safeguard sensitive personal information or confidential information. A cyber incident or security breach could lead to claims by our community members, or other relevant stakeholders that we have failed to comply with such legal or contractual obligations. As a result, we could be subject to legal action or our community members could end their relationships with us. There can be no assurance that any indemnifications, limitations of liability or other remedies in our contracts would be enforceable or adequate or would otherwise protect us from liabilities or damages.

We may not have adequate insurance coverage for security incidents or breaches, including fines, judgments, settlements, penalties, costs, attorney fees, and other impacts that arise out of incidents or breaches. If the impacts of a security incident or breach, or the successful assertion of one or more large claims against us that exceeds our available insurance coverage, is of a type not subject to insurance, or results in changes to our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), it could have an adverse effect on our business. In addition, we cannot be sure that our existing insurance coverage, cyber coverage, and coverage for errors and omissions will continue to be available on acceptable terms or that our insurers will not deny coverage as to all or part of any future claim or loss. Our risks are likely to increase as we continue to expand, grow our customer base, and process, store, and transmit increasingly large amounts of proprietary and sensitive data.

Our business and our sellers and buyers may be subject to evolving sales and other tax regimes in various jurisdictions, which may harm our business.

The application of indirect taxes, such as sales and use tax, value-added tax, provincial tax, goods and services tax, business tax, withholding tax, digital service tax, gross receipt tax, and tax information reporting obligations to businesses like ours and to our sellers and 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 when and how new and existing statutes might apply to our business or to our sellers' businesses. In some cases it may be difficult or impossible for us to validate information provided to us by our sellers on which we must rely to ascertain any obligations that may apply to us related to our sellers' businesses, given the intricate nature of these regulations as they apply to particular products or services and that many of the products and services sold in our marketplace are unique or handmade. If we are found to be deficient in how we have addressed our tax obligations, our business could be adversely impacted.

Various jurisdictions (including the U.S. states and E.U. member states) are seeking to, or have recently imposed additional reporting, record-keeping, indirect tax collection and remittance obligations, or revenue-based taxes on businesses like ours that facilitate online commerce. For example, the recently enacted American Rescue Plan Act of 2021 included a provision which significantly increases the number of sellers for whom we must report payment transactions. If requirements like these become applicable in additional jurisdictions, our business, collectively with Etsy sellers' businesses, could be harmed. For example, taxing authorities in many U.S. states and in other countries have targeted e-commerce platforms as a means to calculate, collect, and remit indirect taxes for transactions taking place over the internet, and have enacted laws and others are considering similar legislation. 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 our marketplaces causes our marketplaces to be less attractive to current and prospective buyers, which could materially impact our business and Etsy sellers' businesses. This legislation could also require us or our sellers to incur substantial costs in order to comply, including costs associated with tax calculation, collection, remittance, and audit requirements, which could make selling on our marketplaces less attractive. Additionally, the European Union, certain member states, and other countries have proposed or enacted taxes on online advertising and marketplace service revenues. Our results of operations and cash flows could be adversely effected by additional taxes of this nature imposed on us prospectively or retroactively or additional taxes or penalties resulting from the failure to provide information about our buyers, sellers, and other third parties for tax reporting purposes to various authorities. In some cases, we also may not have sufficient notice to enable us to build solutions and adopt processes to properly comply with new reporting or collection obligations by the applicable effective date.

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 e-commerce and online marketplaces, such as online payments, privacy, anti-spam, data security and protection, online platform liability, marketplace seller regulation, intellectual property, product liability, 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 or comprehensive 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. In some jurisdictions, these laws and regulations may be subject to attempts to apply such domestic rules world-wide against Etsy or its subsidiaries, and occasionally may subject us to inconsistent obligations across jurisdictions.

Additionally, it is not always clear how existing laws apply to online marketplaces as many of these laws do not address the unique issues raised by online marketplaces or e-commerce. For example, as described elsewhere in these Risk Factors, laws relating to 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 that are applicable to Etsy.

New platform liability laws, potential amendments to existing laws, and ongoing regulatory and judicial interpretation of these laws imparting liability for conduct by users of a platform may create costs and uncertainty for both Etsy and sellers on our platform. This may even be the case for new laws or regulations focused on other technology areas or other third parties that nonetheless indirectly or unintentionally impact us, our sellers or our vendors. For example, the European Union's recent e-Copyright and Platform to Business directives, and pending Digital Services Act and Digital Markets Act, may impact us directly, as well as impacting our sellers and vendors. In addition, there have been various Congressional efforts to restrict the scope of the protections available to online platforms for third party user content under intellectual property laws such as the Digital Millennium Copyright Act § 512 et. seq., or user content platform protections under 47 U.S.C. § 230 (commonly referred to as CDA § 230) and our current protections from liability for third-party content in the United States could significantly decrease or change. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages.

We also operate under an increasing number of regulatory regimes protecting us and our sellers and buyers worldwide, such as intellectual property and anti-counterfeiting laws, payments and taxation, competition, marketplace platform regulation, hate speech laws, and general commerce regulation. For example, upcoming regulations may impose significant verification, certification or ongoing compliance hurdles on both us and our sellers. These laws, and court or regulatory interpretations of these laws, may shift quickly in the United States and worldwide. We may not have the resources or scale to effectively adapt to and comply with any changes to these regulatory regimes which may limit our ability to take advantage of the protections these regimes offer. In addition, some of these changes may be at least partially inconsistent with how our platform operates, especially if they are adopted in the context of, or in a manner best suited for, larger platforms, which may make it harder for us to utilize these regimes to protect our marketplaces. If we are unable to cost-effectively protect our platform, sellers and buyers under these regulatory regimes, such as if the regulations place requirements on our sellers that they find difficult or impossible to comply with, limit the functions or features our marketplace can offer, or require us to take actions at a scale inconsistent with the size, investment, and operation of our marketplace, our business could be harmed.

Existing and future laws and regulations enacted by federal, state, or non-U.S. governments or the inconsistent enforcement of such laws and regulations could impede the growth of e-commerce or online marketplaces, which could have a negative impact on our business and operations. Examples include 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, which may impede us, our users, or our vendors. We could also face regulatory challenges or be subject to allegations of discriminatory or anti-competitive practices that could impede both our and our sellers' growth prospects, increase our costs, and harm our business. We may be subject to regulatory requests for information or testimony related to regulatory challenges of third parties, such as our competitors or our vendors, which could cause us to incur significant costs and expend significant resources in response, and could impact our relationship with those third parties.

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 fully comply in the future, particularly where the applicable regulatory regimes have not been broadly interpreted. 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. Our ability to rely on insurance, or indemnification and other contractual remedies to limit these liabilities, may be insufficient or unavailable in some cases. 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.

We may be subject to intellectual property claims, which, even if untrue, could be extremely costly to defend, damage our brand, require us to pay significant damages, and 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 and scale worldwide, we may face a higher risk of being the subject of intellectual property claims. Third parties may have intellectual property rights that they claim 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, including claims that Etsy is liable, either directly, indirectly, or vicariously, for infringement claims against sellers using Etsy's platform, our vendors, or other third parties, and that statutory, judicial, or other immunities and defenses do not protect us. 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. For claims against us, insurance may be insufficient or unavailable, and for claims related to actions of third parties, either indemnification or remedies against those parties may be insufficient or unavailable.

Some of our competitors have extensive portfolios of issued patents. Many potential litigants, including some of our competitors, patent holding companies, and other intellectual property rights holders, have the ability to dedicate substantial resources to enforcing their perceived intellectual property rights. Any claims successfully brought directly against us, or implicating us as part of an action against third parties, such as our sellers or vendors, 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 we do 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 are subject to the terms of open source licenses because our platform incorporates, and we contribute to, open source software, potentially impairing our ability to adequately protect our intellectual property.

The software powering our platform 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 us 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 marketplaces. 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, and availability of patches or fixes may not be consistent or quickly available, as it may be subject to the continued community engagement in a particular open source project. 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. Similarly, we may be subject to third party intellectual property claims as a user of or contributor to such open source software. Any of these risks could be difficult to eliminate or manage and, if not addressed, could adversely affect our business, financial performance, and growth.

There remains pronounced legal, economic and implementation uncertainty surrounding the United Kingdom's departure from the European Union, which may be a source of instability in international markets, create significant currency fluctuations, adversely affect our operations in the United Kingdom, and pose additional risks to our business, revenue and financial condition.

On January 1, 2021, the United Kingdom left the E.U. single market and customs union ("Brexit"). While the United Kingdom and the European Union have agreed to the terms of the United Kingdom's departure in a trade agreement, there remains a continued lack of clarity about future U.K. laws and regulations as the United Kingdom determines which E.U. rules and regulations to replace or replicate, including financial and banking laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, privacy and information security laws, payments regulations, environmental, health, and safety laws and regulations, immigration laws, and employment laws, all of which could decrease foreign direct investment in the United Kingdom, increase costs and depress economic activity. Additionally, under the terms of the United Kingdom's departure, the European Union retains the right to impose tariffs if the United Kingdom violates certain "level playing field" standards relating to working conditions and environmental requirements. The long-term effects of Brexit will depend on how U.K. laws and relationships evolve, as well as the United Kingdom's adherence to the "level playing field" standards, and how that impacts its ability to negotiate favorable trade agreements with other countries.

The United Kingdom is one of our core markets. We continue to monitor post-Brexit developments so that we may adjust our business and operations as appropriate with the goal of continuing to provide services to our U.K. and E.U. buyers and sellers. A failure by the United Kingdom and the European Union to smoothly implement the trade agreement or to negotiate favorable arrangements governing cross-border services and trade, and ongoing uncertainty with respect to potential divergent regulatory standards, however, could significantly increase friction on cross-border trade involving U.K. buyers and sellers or reduce the number of sellers on our platform offering products between the United Kingdom and the European Union. It may also result in additional operational, financial, regulatory, and compliance costs to us as well as decreased revenue, all of which could adversely affect our business.

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, 2020, we cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal controls 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 have difficulty implementing and maintaining effective internal control over financial reporting at businesses that we may acquire, or if we identify a material weakness in our internal control over financial reporting in the future, it could harm our operating results, 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. We could be required to implement expensive and time consuming remedial measures. 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, and individuals, including employees and contractors, could circumvent such controls. 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.

Other Risks

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. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities 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.

For example, since January 1, 2020, our common stock's daily closing price on Nasdaq has ranged from a low of $31.69 to a high of $244.58 through April 30, 2021. 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;
- entry into or exit from stock market indices;
- announcements of new services or enhancements, 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 or senior management team;
- disruptions in our marketplaces 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, particularly during the current COVID-19 pandemic, 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 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.

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, including as a result of conversion of the outstanding Notes. 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.

The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the Notes. Each series of Notes is convertible at the option of their holders prior to their scheduled maturity in the event the conditional conversion features of such series of Notes are triggered. Based on the daily closing prices of our stock during the quarter ended March 31, 2021, holders of the 2018 Notes and the 2019 Notes are eligible to convert their 2018 Notes and 2019 Notes, as applicable, during the second quarter of 2021. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely cash to converting holders of such Notes, we could be required to deliver to them a significant number of shares of our common stock, increasing the number of outstanding shares of our common stock. The issuance of such shares of common stock and any sales in the public market of the common stock issuable upon such conversion of the Notes could adversely affect prevailing market prices of our common stock. See “Note 7—Debt” in the Notes to Consolidated Financial Statements for more information on the Notes.

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 Delaware General Corporation Law, 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.

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. Our ability to continue to commit to our mission, guiding principles, and culture may also be questioned, which could impact our ability to attract and retain buyers and sellers. 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.

Our stock repurchases are discretionary and even if effected, they may not achieve the desired objectives.

Our Board of Directors approved a stock repurchase program authorizing us to repurchase up to $250 million of our common stock. 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. The amounts and timing of the repurchases may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. If our financial condition deteriorates or we decide to use our cash for other purposes, we may suspend repurchase activity at any time.

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 and the Delaware General Corporation Law 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; 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 may delay or prevent a change in control of our company by imposing 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.

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 March 31, 2021.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in thousands)(2)
January 1 - 31, 2021	44,655	$ 177.91	$ —	$ 250,000
February 1 - 28, 2021	18,494	203.77	—	250,000
March 1 - 31, 2021	12,627	244.58	—	250,000
Total	75,776	195.33	$ —	250,000

(1) The 75,776 shares purchased were shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units.

(2) In December 2020, our Board of Directors approved a new stock repurchase program for the repurchase of up to $250 million of our common stock. The stock repurchase program has no expiration date. No purchases were made pursuant to this program in the first quarter of 2021.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number		Incorporated by Reference				Filed Herewith
		Form	File No.		Filing Date	
10.1*	Form of Performance Stock Unit (PSU) Agreement under 2015 Equity Incentive Plan					X
10.2*	Amended and Restated Compensation Program for Non-Employee Directors, Effective March 5, 2021					X
10.3*	Amended and Restated Offer Letter, dated as of January 15, 2021, by and between Josh Silverman and Etsy, Inc.	8-K	001-36911	10.1	1/20/2021	
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
104	Cover Page Interactive Data File - the cover page interactive data is embedded within the Inline XBRL 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: May 5, 2021	/s/ Merilee Buckley
	Merilee Buckley Chief Accounting Officer (Principal Accounting Officer)

Exhibit 10.1

ETSY, INC.
2015 EQUITY INCENTIVE PLAN
NOTICE OF PERFORMANCE STOCK UNIT AWARD

You have been granted Stock Units, subject to performance conditions ("Performance Stock Units" or "PSUs"), representing shares of common stock of Etsy, Inc. (the "Company") on the following terms:

Name of Recipient:	[*Insert Name*]
Total Number of Performance Stock Units Granted at Target:	[*That number of shares equal to $[●] divided by the average closing price of Etsy's common stock on the NASDAQ (rounded to the nearest hundredth) on the 30 trading days immediately preceding and including the Date of Grant*] PSUs (the "Award")[1]
Date of Grant:	[ ]
Performance Conditions:	Except as otherwise provided in the Performance Stock Unit Agreement, vesting will be based on your continuous Service (as described below) and achievement of certain performance goals relating to the following four equally-weighted performance metrics (collectively, the "Performance Conditions"): (i) Gross Merchandise Sales (as defined in Exhibit A of the Performance Stock Unit Agreement), (ii) Revenue (as defined in Exhibit A of the Performance Stock Unit Agreement), (iii) Adjusted EBITDA Margin (as defined in Exhibit A of the Performance Stock Unit Agreement) (the PSUs subject to performance metrics (i), (ii) and (iii), the "Financial PSUs")) and (iv) relative total shareholder return compared to the Comparator Group (as defined in Exhibit A of the Performance Stock Unit Agreement) (the "Relative TSR PSUs"), in each case, determined, except as otherwise provided herein, at the end of the three-year Performance Period (as defined on Exhibit A of the Performance Stock Unit Agreement).
Service Vesting Schedule:	Subject to the terms and conditions of the Plan and the Performance Stock Unit Agreement, 50% of the PSUs earned based on the achievement of the Performance Conditions will vest on each of (i) [Date 1] and (ii) [Date 2] (together, the "Vesting Dates"), subject to your continuous Service through each such Vesting Date or as otherwise set forth in the Performance Stock Unit Agreement. The portion, if any, of the PSUs that shall vest shall range from 0% to 200% of the Target number of shares underlying the Award based on the achievement of performance against the Performance Goals as set forth in the Performance Stock Unit Agreement, as determined in accordance with the methodology set out on Exhibit A of the Performance Stock Unit Agreement.

These PSUs are granted under and governed by the terms and conditions of the Company's 2015 Equity Incentive Plan (the "Plan") and the Performance Stock Unit Agreement, both of which are incorporated into this document.

You agree to accept by email all documents relating to the Plan or this Award (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company.

You further agree to comply with the Company's Insider Trading Policy.

[1] **Note to Draft**: Insert number of PSUs granted at target.

BY ACKNOWLEDGING AND ACCEPTING THIS NOTICE, THE PERFORMANCE STOCK UNIT AGREEMENT AND THE PLAN, YOU AGREE TO THE TERMS AND CONDITIONS DESCRIBED IN THESE DOCUMENTS

ETSY, INC.
2015 EQUITY INCENTIVE PLAN
PERFORMANCE STOCK UNIT AGREEMENT

Grant of Units

Subject to all of the terms and conditions set forth in the Notice of Performance Stock Unit Award, this Performance Stock Unit Agreement (the "Agreement") and the Plan, the Company has granted to you a target number of PSUs as set forth in the Notice of Performance Stock Unit Award. The PSUs shall be credited to a separate account maintained for you on the books of the Company (the "Account"). On any given date, the value of each PSU comprising the Award shall equal the Fair Market Value of one share of common stock of the Company (each, a "Common Share"). The Award shall vest and settle as set forth below.

All capitalized terms used in this Agreement shall have the meanings assigned to them in this Agreement, the Notice of Performance Stock Unit Award or the Plan.

Payment for Units

No payment is required for the PSUs that you are receiving.

Vesting

The Award shall be eligible to vest as provided in this Section of the Performance Stock Unit Agreement and shall become earned to the extent provided in the tables set forth on Exhibit A attached hereto if, and to the extent that, (A) you remain employed by the Company through each of the Vesting Dates or as otherwise set forth below and (B) the Administrator (as defined on Exhibit A attached hereto) certifies that the Company has achieved or exceeded Threshold performance for (i) the "Gross Merchandise Sales Goal," (ii) the "Revenue Goal," (iii) the "Adjusted EBITDA Margin Goal" and (iv) the "Relative TSR Goal" (each as defined in Exhibit A, and collectively referred to herein as the "Performance Goals") necessary for any portion of the Award to be earned and eligible to vest. The portion, if any, of the Award that shall vest shall range from 0% to 200% of the Target number of Common Shares underlying the Award based on achievement against the Performance Goals, as determined in accordance with the methodology set out on Exhibit A. For the avoidance of doubt, the Administrator shall have the right, to adjust or modify the Performance Goals as permitted under the Plan and as provided in this Agreement.

Except as otherwise provided herein, no additional PSUs will vest after your Service has terminated for any reason.

Forfeiture

If your Service terminates for any reason other than in connection with a Change in Control (as defined in Etsy's Executive Severance Plan, hereinafter, the "Severance Plan") or for a Qualifying Termination (as defined in the Severance Plan), then your PSUs will be forfeited to the extent that they have not vested and been earned before the termination date. This means that any PSUs that have not vested and been earned under this Agreement will be cancelled immediately. You receive no payment for PSUs that are forfeited. The Company determines when your Service terminates for all purposes of your PSUs.

Change in Control Treatment

If a Change in Control occurs prior to [*last day of Performance Period*] , the Performance Period will end as of the date of such Change in Control and (i) any unearned Financial PSUs will be deemed to be earned at (A) Target performance level set forth on Exhibit A if the Change in Control occurs from [January 1, 20XX] through [December 31, 20XX] ("Year 1 of the Performance Period") and (B) the greater of (x) Target performance level set forth on Exhibit A or (y) actual performance based on a trailing twelve month period that will end on the date of the closing date of such Change in Control (using linear interpolation for purposes of determining the achievement of the applicable performance goals) if the Change in Control occurs on or after January 1, 20XX] but before the end of the Performance Period ("Years 2 to 3 of the Performance Period"), and such earned Financial PSUs will continue to vest in accordance with the original service vesting schedule set forth in the Notice of Performance Stock Unit Award and (ii) any unearned Relative TSR PSUs will be deemed earned at the greater of (x) Target performance level set forth on Exhibit A or (y) actual performance level based on a truncated performance period that will end on the closing date of such Change in Control and will use the Change in Control price per Common Share, and such earned Relative TSR PSUs will continue to vest in accordance with the original service vesting schedule set forth in the Notice of Performance Stock Unit Award. Notwithstanding the foregoing, in the event you experience a Qualifying CIC Termination (as defined in the Severance Plan), your earned Financial PSUs and your earned Relative TSR PSUs will fully vest as of the date of such Qualifying CIC Termination.

Leaves of Absence and Part-Time Work

For purposes of the Award, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by applicable law, the Company's leave of absence policy or the terms of your leave. However, your Service terminates when the approved leave ends, unless you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Performance Stock Unit Award may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, the Company may adjust the vesting schedule so that the rate of vesting is commensurate with your reduced work schedule.

Settlement	The Company shall settle the Award on each of the Vesting Dates, or in the case of a Qualifying Termination, the date of such Qualifying Termination, and shall therefore issue (in book-entry form) in your name one Common Share (each, a "PSU Share") for each such vested PSU comprising the Award (and, upon such settlement, those PSUs shall cease to be credited to the Account). No fractional shares will be issued upon settlement, and so any fractional share that may be payable shall be rounded to the nearest whole share. Notwithstanding anything to the contrary in this Agreement, if the delivery of Common Shares upon settlement of the Award would require you to make a filing under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, then, in lieu of delivering such Common Shares, the Company may, in its sole discretion, settle the Award, in whole or in part, in cash.
Section 409A	This paragraph applies only if the Company determines that you are a "specified employee," as defined in the regulations under Code Section 409A at the time of your "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), and it is determined that settlement of these PSUs is not exempt from Code Section 409A. If this paragraph applies, and the event triggering settlement is your "separation from service," then any PSUs that otherwise would have been settled during the first six months following your "separation from service" will instead be settled on the first business day following the earlier of (i) the six-month anniversary of your separation from service or (ii) your death. Each installment of PSUs that vests is hereby designated as a separate payment for purposes of Code Section 409A.
Nature of Units	Your PSUs are mere bookkeeping entries. They represent only the Company's unfunded and unsecured promise to issue Common Shares (or distribute cash) on a future date. As a holder of PSUs, you have no rights other than the rights of a general creditor of the Company.
No Voting Rights or Dividends	Your PSUs carry neither voting rights nor rights to cash dividends. You have no rights as a stockholder of the Company unless and until your PSUs are settled by issuing Common Shares.

Units Nontransferable	You may not sell, transfer, assign, pledge or otherwise dispose of any PSUs. For instance, you may not use your PSUs as security for a loan.
Beneficiary Designation	You may dispose of your PSUs in a written beneficiary designation. A beneficiary designation must be filed with the Company on the proper form and must have been received before your death. If you file no beneficiary designation or if none of your designated beneficiaries survives you, then your estate will receive any vested and earned PSUs that you hold at the time of your death.
Withholding Taxes	No stock certificates (or their electronic equivalent) or cash will be distributed to you unless you have paid any withholding taxes that are due as a result of the vesting or settlement of PSUs. Withholding taxes will be paid by (a) the Company withholding PSU Shares from those that otherwise would be issued to you when the PSUs are settled, (b) if permitted by the Company, by the Company withholding cash from cash compensation otherwise payable to you or (c) if required at the Company’s discretion (or with the Company’s permission, at your election), by paying cash to the Company or by payment from the proceeds of the sale of shares through a Company-approved broker. For the avoidance of doubt, the withholding of PSU Shares shall only be permitted to the extent authorized by the Administrator, and the management shall not be authorized to disallow the withholding of such PSU Shares to satisfy tax withholding.
Restrictions on Resale	You agree not to sell any shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Retention Rights	Your Award or this Agreement does not give you the right to be retained by the Company, a Parent, Subsidiary or an Affiliate in any capacity. The Company and its Parents, Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause.

Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of your PSUs will be adjusted accordingly, as the Company may determine pursuant to the Plan.
Effect of Significant Corporate Transactions	If the Company is a party to a merger, consolidation or certain change in control transactions, then your PSUs will be subject to the applicable provisions of Article 9 of the Plan, provided that any action taken must either (a) preserve the exemption of your PSUs from Code Section 409A or (b) comply with Code Section 409A.
Recoupment Policy	This Award, and the PSU Shares acquired upon settlement of this Award, shall be subject to any Company recoupment or clawback policy in effect from time to time.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference.
	The Plan, this Agreement and the Notice of Performance Stock Unit Award constitute the entire understanding between you and the Company regarding this Award. Any prior agreements, commitments or negotiations concerning this award are superseded. This Agreement may be amended only by another written agreement between the parties.

**BY ACKNOWLEDGING AND ACCEPTING THIS AGREEMENT,
YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE
AND IN THE PLAN.**

EXHIBIT A

The (i) the Gross Merchandise Sales Goal for Target performance is $[ ] billion, (ii) the Revenue Goal for Target performance is $[ ] billion (iii) the Adjusted EBITDA Margin Goal for Target performance is [ ]% and (iv) the Relative TSR Goal for Target performance is [xxth] percentile, in each case, determined, except as otherwise provided herein, at the end the three-year Performance Period (as defined below) For the Financial PSUs, performance is based on Fiscal [20XX] results, and for the Relative TSR PSUs, performance is based on TSR performance during the entire Performance Period.

The Administrator shall have the right to adjust or modify the calculation of the Performance Goals as permitted under the Plan or contemplated herein. In addition, the Performance Goals and the calculated level of achievement of the Performance Goals may be equitably adjusted from time to time in any manner that the Administrator deems necessary or appropriate in its sole discretion. For instance, adjustments may be made to take account of any (i) acquisitions, divestitures, reorganization, restructuring, or any other specific unusual or nonrecurring events or conditions that occur during the Performance Period, and/or (ii) changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results, including such changes that result in gains, losses or expenses determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case, affecting the Company or any of its subsidiaries or the financial statements of the Company or any of its subsidiaries (each, a "Permitted Adjustment").

"**Adjusted EBITDA Margin**" shall mean the quotient of: (i) the Company's net income (determined on a consolidated basis), as further adjusted to exclude: interest and other non-operating expense, net; provision (benefit) for income taxes; depreciation and amortization; stock-based compensation expense; foreign exchange loss (gain); acquisition-related expenses; non-ordinary course disputes; restructuring and other exit income; and loss on extinguishment of debt, as may be further adjusted by the Administrator in its discretion to reflect any Permitted Adjustments over (ii) the Company's Revenue, expressed as a percentage.

"**Administrator**" shall mean the Board of Directors of the Company or the Compensation Committee, to the extent the Board of Directors delegates such authority to the Compensation Committee.

"**Comparator Group**" shall consist of those companies that are constituents of the NASDAQ Composite Index as of January 1, [20XX]; provided, that, the Comparator Group may be adjusted by the Administrator in its sole discretion (x) in the event of the merger, acquisition, bankruptcy, or similar transaction of a Comparator Group member, (y) in response to a change in circumstances that results in a member of the Comparator Group no longer being a publicly traded company or having publicly traded stock or (z) in any other manner that the Administrator deems necessary or appropriate.

"**Ending Share Price**" shall mean, with respect to any one company, the average closing price of one share of common stock during the last [xx] calendar days of the Performance Period.

"**Gross Merchandise Sales**" shall mean the dollar value of items sold in the Company's marketplaces, excluding shipping fees and net of refunds associated with canceled transactions, as may be adjusted by the Administrator in its discretion to reflect any Permitted Adjustments.

"**Initial Share Price**" shall mean, with respect to any one company, the average closing price of one share of common stock during the first [xx] calendar days of the Performance Period.

“**Performance Period**” shall mean, except as otherwise provided in this Agreement, the [x-year] performance period, which will begin on January 1, [20XX] and end on December 31, [20XX].

“**Relative TSR**” shall mean the percentile rank of the Company’s TSR determined by dividing (x) the Company’s numerical position in the ranking of the TSRs calculated for each company in the Comparator Group as of the end of the Performance Period (ranking by lowest to highest TSR) by (y) the total number of companies included in the Comparator Group as of the end of the Performance Period, rounding to the nearest hundredth.

“**Revenue**” shall mean the Company’s revenue (determined on a consolidated basis) reported in the Company’s financial statements, as may be adjusted by the Administrator in its discretion to reflect any Permitted Adjustments.

“**TSR**” shall mean, with respect to any one company, (x) the Ending Share Price minus the Initial Share Price (assuming all dividends and other distributions made on such share are reinvested), divided by (y) the Initial Share Price and multiplied by 100.

Performance Goals

Gross Merchandise Sales
For Fiscal Year [ ] (or as otherwise provided)

Achievement Level	Gross Merchandise Sales Performance Goals	Percentage of Award Vesting on [Date 1]	Percentage of Award Vesting on [Date 2]
Below Threshold	Less than $[ ] billion	[ ]%	[ ]%
Threshold	$[ ] billion	[ ]%	[ ]%
Target	$[ ] billion	[ ]%	[ ]%
Stretch	Greater than or equal to $[ ]billion	[ ]%	[ ]%

If, for the Performance Period, Gross Merchandise Sales is greater than the threshold achievement level set forth above but less than the target achievement level set forth above, or is greater than the target achievement level set forth above but less than the stretch achievement level set forth above, then the percentage of the Award eligible to vest shall be determined using linear interpolation.

Revenue
For Fiscal Year [ ] (or as otherwise provided)

Achievement Level	Revenue Performance Goals	Percentage of Award Vesting on [Date 1]	Percentage of Award Vesting on [Date 2]
Below Threshold	Less than $[ ] billion	[ ]%	[ ]%
Threshold	$[ ] billion	[ ]%	[ ]%
Target	$[ ] billion	[ ]%	[ ]%
Stretch	Greater than or equal to $[ ] billion	[ ]%	[ ]%

If, for the Performance Period, Revenue is greater than the threshold achievement level set forth above but less than the target achievement level set forth above, or is greater than the target achievement level set forth above but less than the stretch achievement level set forth above, then the percentage of the Award eligible to vest shall be determined using linear interpolation.

Adjusted EBITDA Margin
For Fiscal Year [ ] (or as otherwise provided)

Achievement Level	Adjusted EBITDA Margin Performance Goals	Percentage of Award Vesting on [Date 1]	Percentage of Award Vesting on [Date 2]
Below Threshold	Less than [ ]%	[ ]%	[ ]%
Threshold	[ ]%	[ ]%	[ ]%
Target	[ ]%	[ ]%	[ ]%
Stretch	Greater than or equal to [ ]%	[ ]%	[ ]%

If, for the Performance Period, Adjusted EBITDA Margin is greater than the threshold achievement level set forth above but less than the target achievement level set forth above, or is greater than the target achievement level set forth above but less than the stretch achievement level set forth above, then the percentage of the Award eligible to vest shall be determined using linear interpolation.

Relative TSR
For the 3 years from January 1, [ ] to December 31, [ ]

Achievement Level	Relative TSR Performance Goals	Percentage of Award Vesting on [Date 1]	Percentage of Award Vesting on [Date 2]
Below Threshold	Less than the[ ]th Percentile	[ ]%	[ ]%
Threshold	[ ]th Percentile	[ ]%	[ ]%
Target	[ ]th Percentile	[ ]%	[ ]%
Stretch	Greater than or equal to [ ]th Percentile	[ ]%	[ ]%

If, for the Performance Period, Relative TSR is greater than the threshold achievement level set forth above but less than the target achievement level set forth above, or is greater than the target achievement level set forth above but less than the stretch achievement level set forth above, then the percentage of the Award eligible to vest shall be determined using linear interpolation.

Etsy, Inc.

Amended and Restated Compensation Program for Non-Employee Directors

Effective as of March 5, 2021

This program has been established in order to attract and retain non-employee directors who have the knowledge, skills and experience to serve as a member of the Board of Directors (the "Board") of Etsy, Inc. (the "Company").

All equity awards granted under this program shall be granted under the Company's then-current equity incentive plan (or director equity incentive plan, if any). Capitalized terms used but not defined will have the meaning set forth in the applicable equity incentive plan or equity award agreement.

A. Continuing Directors

Annual Board Retainers and Additional Retainers

Each non-employee director will receive an Option and/or Restricted Stock Units (the "Annual Equity Award" and in each case, "Equity") on the date of the regular annual meeting of stockholders (the "Annual Meeting") unless he or she received a New Director Equity Award in the same calendar year as the regular annual meeting. The fair value[1] on the date of grant of each Annual Equity Award will equal the amount of the Annual Board Retainer, plus the amount of any applicable Additional Retainers (other than any Additional Retainer for the Board Chair).

Each Annual Equity Award will vest in full on the date of the next Annual Meeting (the "Next Annual Meeting"), provided that the director has served continuously as a member of the Board during the vesting period, and will vest in full in the event that the Company is subject to a Change in Control or in the event of the director's death.

If a director is not eligible to receive an Annual Equity Award, any applicable Additional Retainers (other than any Additional Retainer for the Board Chair) will be paid in the form of cash on the date of the Next Annual Meeting, provided that the director has served continuously as a member of the Board until the Next Annual Meeting.

Any Additional Retainer for the Board Chair will be paid in the form of an Option and/or Restricted Stock Units, with a fair value on the date of grant equal to the amount of such Additional Retainer for the Board Chair. Such award will be granted on the date of the Annual Meeting and will vest in full on the date of the Next Annual Meeting, provided that the director has served continuously as a member of the Board during the vesting period, and will vest in full in the event that the Company is subject to a Change in Control or in the event of the director's death.

[1] "Fair value" of all equity awards described in this Compensation Program will be calculated in accordance with the Company's Equity Grant Policy.

B. New Directors

Each new, non-employee director who joins the Board will be granted Equity in the same form of Equity as the Annual Equity Award most recently granted to the Company's continuing directors and with a fair value on the date of grant equal to the amount of the Annual Board Retainer, plus the amount of any applicable Additional Retainers (other than any Additional Retainer for the Board Chair) (the "New Director Equity Award"). If such director's appointment to the Board becomes effective after the date of the Annual Meeting, the director's New Director Equity Award will be *pro-rated* based on the number of whole months that the director serves on the Board before the Next Annual Meeting.

Each New Director Equity Award will be granted on the first business day of the month following the month in which the director's appointment to the Board becomes effective (or, if such day is not a trading day, on the following trading day) or, if the director's appointment to the Board becomes effective during the month of, and prior to, the date of the Annual Meeting, then the New Director Equity Award will be granted on the date of the Annual Meeting.

Each New Director Equity Award will vest in full on the date of the Next Annual Meeting, provided that the director has served continuously as a member of the Board during the vesting period, and will vest in full in the event that the Company is subject to a Change in Control or in the event of the director's death.

If a new director is eligible to receive an Additional Retainer for the Board Chair, it will be paid in the form of an Option and/or Restricted Stock Units, with a fair value on the date of grant equal to the amount of such Additional Retainer for the Board Chair. If such director's appointment to the Board becomes effective after the date of the Annual Meeting, such award will be *pro-rated* based on the number of whole months that the director serves on the Board before the Next Annual Meeting. Such award will be granted on the same date that the director is granted his or her New Director Equity Award and will vest in full on the date of the Next Annual Meeting, provided that the director has served continuously as a member of the Board during the vesting period, and will vest in full in the event that the Company is subject to a Change in Control or in the event of the director's death.

C. Additional Catch-Up Retainers

If a director becomes the Board Chair, or a member or Chair of a Board committee, after the date of the Annual Meeting (for continuing directors) or the date the director's appointment to the Board became effective (for new directors), then the director will be entitled to receive an additional amount (the "Additional Catch-Up Retainer") equal to the excess of the director's Additional Retainers for the prior and new roles (the "Original Additional Retainer") over the Additional Retainers that were actually paid to the director as of the date of the Annual meeting. The Original Additional Retainer will be *pro-rated* based on the number of whole months that the director served in each additional role during the period from the Annual Meeting (for continuing directors) or the date the director's appointment to the Board became effective (for new directors) until the Next Annual Meeting,

The amount of any Additional Catch-Up Retainer attributable to any Additional Retainers (other than any Additional Retainer for the Board Chair) will be paid in the form of cash on the date of the Next Annual Meeting, provided that the director has served continuously as a member of the Board until the Next Annual Meeting.

If a director is eligible to receive a Catch-Up Retainer attributable to an Additional Retainer for the Board Chair, it will be paid in the form of an Option and/or Restricted Stock Units, with a fair value on the date of grant equal to such amount. Such award will be granted on the first business day of the month following the month in which the director becomes the Board Chair (or, if such day is not a trading day, on the following trading day). Such award will vest in full on the date of the Next Annual Meeting, provided that the director has served continuously as a member of the Board during the vesting period, and will vest in full in the event that the Company is subject to a Change in Control or in the event of the director's death.

D. Schedule of Fees

1. **Annual Board Retainer**: $250,000

2. **Additional Retainers**:

Board Chair	$100,000
Chair of the Audit Committee	$20,000
Member (other than Chair) of the Audit Committee	$10,000
Chair of the Compensation Committee	$16,000
Member (other than Chair) of the Compensation Committee	$8,000
Chair of the Nominating and Corporate Governance Committee	$10,000
Member (other than Chair) of the Nominating and Corporate Governance Committee	$5,000
Member of any other Committee constituted by the Board from time to time	$40,000 (unless otherwise determined by the Board or Compensation Committee)

E. Expenses

The reasonable expenses incurred by non-employee directors in connection with attendance at Board or committee meetings or other Company-related activities will be reimbursed upon submission of appropriate documentation.

F. Administration

This Program shall be administered by the Compensation Committee of the Board (the "Compensation Committee"), which shall have the power to interpret these provisions and approve changes from time to time as it deems appropriate.

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: May 5, 2021

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 Officer)

Date: May 5, 2021

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 March 31, 2021 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: May 5, 2021

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 March 31, 2021 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 Officer)

Date: May 5, 2021