



**2018** Annual Meeting of  
Stockholders and Proxy Statement

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&

**2017** Annual Report





# Message From Our President and CEO

## **Dear Stockholders, Customers, Colleagues, and Partners:**

In a time when technology has transformed people's lives in so many ways, financial services is one area where the full potential of the Internet era has yet to be realized. We've been hearing for decades about how the decline of cash and the rise of the digital economy will revolutionize financial services and usher in more convenient, accessible and affordable transactions. But so far, the traditional financial order remains firmly in place. While change is underway, the way most people move and manage their money hasn't changed much since credit cards appeared on the scene 50 years ago. And there's still plenty of friction in the system.

Around the world, two billion people lack access to even the most basic banking services. In the United States, nearly half of families have less than \$400 in savings and those among the working poor spend more than \$170 billion a year on fees and interest charges to use their own hard-earned money.

The good news is that we now have the tools and capabilities necessary to address all of this at scale. Mobile devices, big data, and artificial intelligence are opening the door to a new generation of universally accessible digital financial services. The potential to transform people's lives is immense. So are the opportunities for PayPal. It is my pleasure to write this letter to update you on the progress PayPal is making to fulfill the promise and potential of this transformation.

## **Succeeding by Making a Difference in People's Lives**

In 2015, we shared a new mission for PayPal—to foster inclusive economic opportunity and strengthen financial health for people, businesses, and communities around the world by democratizing financial services for consumers and commerce capabilities for merchants. We believe access to affordable and convenient financial services should be a right for all rather than a privilege for the few.

To achieve this, we are aligned across the company around one central vision: to make the movement and management of money as simple, secure, and affordable as possible. As we democratize financial services for consumers, we can empower people around the globe to take control of their financial lives. And as we democratize commerce capabilities for merchants, we can help every business—no matter how large or small, no matter where it is located—take advantage of the opportunities of the digital age and the global economy.

These two tenets of our mission and vision are united by the fundamental truth that improving the financial life of just one person or one small business can create ripples of progress across communities and economies. Financially healthy individuals and families spend their money at local businesses and start companies of their own. They invest in education for themselves and their children. They support each other and give back to their communities. Financially healthy businesses of every size create good jobs, offer solid benefits, and support the economic and cultural life of their communities. Financially healthy communities invest in transportation, education, health care, and public safety.

As a leader in digital financial technology, we believe that driving the cycle of opportunity and economic expansion that begins with financial health for individuals and families is both our greatest obligation and our greatest opportunity. This

mission inspires our employees, strengthens our partnerships, reinforces our relationship with customers, and creates new markets. Democratizing financial services is the key to unlocking long-term growth and profitability at PayPal. In other words, making a positive difference in people's financial lives is PayPal's best strategy not just for serving our customers but for serving our stockholders.

## **Translating Our Vision into Strong Results**

It's safe to say that our financial results for 2017 are a strong indication that our strategy for change is the right one for PayPal at this moment in our history and in the development of our industry.

PayPal had a transformative year in 2017, delivering consistently strong, and in many cases record-breaking results.

We added 29 million net new active accounts to our Payments Platform, with the number of actives joining PayPal accelerating each quarter throughout 2017. We ended the year with 229<sup>1</sup> million active accounts and we anticipate this growth in net new actives to continue in 2018, as we experience increasing network effects from our scale.

Importantly, even at this greater scale, our customers are more active than ever before as they increasingly engage in the range of services we offer and benefit from the improvements we have made to our customer experiences through the many initiatives I will detail later in this letter. In 2017, PayPal processed more than 7.7<sup>1</sup> billion payment transactions valued at more than \$456<sup>1</sup> billion in total payment volume, an increase of 27% both on a spot and FX-neutral basis.

Revenue for 2017 exceeded \$13 billion dollars, growing 21%, or 22% on an FX-neutral basis. For the year, earnings per share grew 28% to \$1.47 and non-GAAP earnings per share<sup>2</sup> grew 27% to \$1.90. Finally, during the year, we returned more than \$1 billion dollars to stockholders in the form of stock repurchases, buying back our stock at an average price of \$51.

We continued to build on our leadership in mobile transactions and to take a mobile-first approach in our innovation efforts. For the full year, mobile represented approximately 34% of overall payment volume on our platform with total mobile payment volume growing 52% to approximately \$155 billion for the year. Venmo's volume increased 97% in 2017, with almost \$35 billion in payment volume processed. And we ended the year with 80 million consumers opted in to our One Touch service, up from 40 million a year ago, and the number of merchants offering One Touch now totals more than 8 million, compared with 5 million a year ago.

## **The Foundation for Growth: Customer Choice and Industry Partnerships**

When we embarked on this journey in 2015, we recognized that to achieve our vision we needed to rethink some central aspects of our business. Back then, we were still mostly a web-based company with a strong checkout experience. To get where we needed to be, we made significant investments in our technology infrastructure to create a service-oriented architecture capable of delivering a comprehensive range of capabilities and products to consumers and merchants, to provide an open and neutral third-party platform for our partners. We undertook this transformative journey of moving from a button on a website to a full service digital payments platform.

This approach has enabled us to become a Customer Champion and to partner broadly with companies across our industry—two things that are the foundation of our strong results in 2017 and essential to our long-term success.

This first required a fundamental shift in our business model. Instead of encouraging consumers to use funding sources that were the lowest cost for PayPal, we've now offered them the freedom to use PayPal in stores, in apps, and on websites and to pay with the funding source they prefer. This is at the heart of our Customer Champion philosophy—to provide complete choice, flexibility, and transparency for people when it comes to how they manage and move their money. This, in turn, has enabled us to enter into a series of strategic relationships with companies that once viewed PayPal

more as a competitor than a partner. As a result, we have announced more than 20 strategic agreements with leading financial institutions, technology companies, and wireless carriers from around the world.

These partnerships have extended our reach and value proposition, broadened our audience, and connected us with millions of new customers. More importantly, they are driving the digitization of money around the world, helping consumers take advantage of digital payments and a host of innovative new financial services, and connecting businesses of all sizes in every part of the world to customers, markets, and capital. And we believe they will play an important role in fostering long-term economic health for communities and success for businesses around the world, including PayPal.

## **Technology and Services to Improve People's Lives and Strengthen Our Business**

Our efforts to democratize financial services are already having a measurable, positive impact on people's lives. Use a traditional remittance service to send money from the United States to relatives in Mexico, for example, and it will take several days for the transaction to clear. Once that process is complete, your relatives will spend an average of more than 40 minutes traveling and standing in line to access the funds. With PayPal on a mobile device, that can all be accomplished in less than a minute. Similarly, it takes the owner of a small business an average of 26 hours to apply for credit and secure a loan at a local bank. We can complete the entire process in about five minutes.

Because small businesses are so important to the health of local communities and the strength of the global economy, we acquired Swift Financial, a leading provider of working capital solutions to small businesses in the United States. Through PayPal Working Capital, we have been at the forefront of helping small businesses gain access to capital since 2013, providing more than \$4.5 billion in funding to more than 140,000 small businesses, many in communities where physical bank branches are no longer easily accessible. The acquisition of Swift Financial will improve our ability to support even more small business owners by offering access to the financial services and solutions they need to grow and thrive.

The ability to provide affordable credit to consumers and businesses is essential to our efforts to democratize financial services. To accelerate our progress in this area, we announced an expansion of our existing relationship with Synchrony Financial, which has been our partner in offering PayPal-branded credit cards since 2004. Under our new agreement, Synchrony Bank is acquiring PayPal's U.S. consumer credit receivables portfolio. Through this expanded relationship, PayPal and Synchrony Financial are committed to working together to build innovative, personalized credit options and payment experiences for consumers and merchants. The agreement accomplishes every goal we set out for our asset light strategy, freeing up approximately \$1 billion in cash flow each year and approximately \$6 billion in cash proceeds at closing. This will provide increased flexibility to invest in organic and inorganic growth opportunities as we strive to achieve our mission.

## **Living our Values Through Diversity and Inclusion**

PayPal is a values-driven company. We believe that to achieve our commitment to make a positive difference in the world ultimately depends on our ability to build an inclusive workforce, one that reflects the full diversity of the customers we serve and the communities in which we live and work. We recognize that the best way to do this is to create a culture at PayPal that respects individual differences in life experience, knowledge, and self-expression.

In 2017, we enhanced the diversity of our board of directors, which now benefits from being made up of 45 percent women and underrepresented ethnic groups. We reported a strong gender balance in our workforce, with women making up 43 percent of our overall workforce. The number of women at the vice president level or above grew by 20 percent and the overall gender balance in leadership roles improved with a three percent increase in the number of women in leadership positions. We also reported that around the world, for the second year in a row, for comparable employees we have pay equity in salaries for men and women working in similar roles; and, in the United States, pay equity in salaries across ethnicities.

As a global company with employees representing 122 nationalities working in 55 offices in 31 countries, we are, in many ways, already a fundamentally diverse company. And yet, we know we have more work to do to achieve the kind of inclusion and diversity to which we aspire. We will continue to work to improve our ability to attract and retain diverse talent at every level of the company.

## **A Global Community Committed to Creating a Better World**

Democratizing financial services is a huge undertaking—so big that it can be hard sometimes to measure our progress and assess our impact. However, there is one area where it's easy to see how the work we are doing is making a difference. As a platform for charitable giving, PayPal is already achieving remarkable things. During the 2017 holiday season, the global PayPal community contributed over \$1 billion to charities and nonprofits, the first time that we've crossed the billion-dollar threshold as donations came from people in 175 different countries.

Another example was the outpouring of support for relief efforts in the aftermath of a series of natural disasters that struck communities in the United States, the Caribbean, and Mexico in 2017. In response to Hurricane Irma, Hurricane Harvey, and Hurricane Maria, the Mexico City earthquake, and the fires that have swept California, the PayPal community donated more than \$55 million to support families and communities devastated by these terrible events.

Overall in 2017, people used PayPal to donate more than \$8.5 billion to support the causes they care about and to help those in need.

This incredible generosity characterizes the global PayPal community and is just one of the many reasons why it is such an honor and privilege to be part of this great company—a company that is driven by a powerful mission and united by a common set of values. It's rare to have the chance to work for an organization where the opportunity to thrive and grow and the opportunity to make a positive difference in the world are so closely aligned.

We are grateful for your support and we look forward to the hard work that lies ahead as we build on the success of the past year and continue to strive to achieve our mission.

Thank you,



Daniel H. Schulman  
President and CEO  
PayPal Holdings, Inc.

### Notes:

All growth rates represent year-over-year comparisons, except as otherwise noted. FX-neutral results are calculated by translating the current period local currency results by the prior period exchange rate. FX-neutral growth rates are calculated by comparing the current period FX-neutral results by the prior period results, excluding the impact from hedging activities.

<sup>1</sup> This number has been updated to reflect the changes to the definitions of active account and total payment volume described in the Current Report on Form 8-K filed by PayPal with the Securities and Exchange Commission on April 10, 2018.

<sup>2</sup> Non-GAAP earnings per share is a non-GAAP financial measure. Please see pages 32 and 40-43 of the attached 2017 Annual Report on Form 10-K for a reconciliation of this non-GAAP financial measure to the most directly comparable financial measure.



## MESSAGE FROM OUR CHAIRMAN OF THE BOARD AND LEAD INDEPENDENT DIRECTOR

April 12, 2018

Dear PayPal Stockholder:

We are pleased to invite you to attend the annual meeting of stockholders of PayPal Holdings, Inc. on Wednesday, May 23, 2018 at 8:00 a.m. Pacific Time. Our annual meeting will be conducted exclusively online via live webcast. We have conducted an exclusively virtual annual meeting of stockholders every year since we became a public company in 2015. We believe that hosting virtual meetings enables greater stockholder attendance and participation from any location around the world.

You will be able to attend the virtual annual meeting of stockholders online and submit your questions during the meeting by visiting [pypl.onlineshareholdermeeting.com](http://pypl.onlineshareholdermeeting.com). You also will be able to vote your shares electronically at the virtual annual meeting. Details regarding how to attend the meeting online, how to submit your questions before and during the meeting, and the business to be conducted at the annual meeting are more fully described in the accompanying proxy statement.

We will be providing access to our proxy materials over the Internet under the U.S. Securities and Exchange Commission's "notice and access" rules. As a result, beginning on or about April 12, 2018, we are mailing to many of our stockholders a notice instead of a paper copy of this proxy statement and our 2017 Annual Report. This approach conserves natural resources and reduces our printing and distribution costs, while providing a timely and convenient method of accessing the materials and voting. The notice contains instructions on how to access those documents over the Internet. The notice also contains instructions on how to receive a paper copy of our proxy materials, including this proxy statement, our 2017 Annual Report, and a form of proxy card or voting instruction card. All stockholders who do not receive a notice, including stockholders who have previously requested to receive paper copies of proxy materials, will receive a paper copy of the proxy materials by mail.

Your vote is important. Regardless of whether you plan to participate in the annual meeting, we hope you will vote as soon as possible. You may vote by proxy over the Internet, by telephone, or by mail (if you received paper copies of the proxy materials) by following the instructions on the proxy card or voting instruction card. Voting will ensure your representation at the virtual annual meeting regardless of whether you attend the meeting online. You may also vote your shares electronically during the virtual meeting.

Sincerely yours,

A handwritten signature in black ink that reads "John J. Donahoe".

John J. Donahoe  
Chairman of the Board

A handwritten signature in black ink that reads "David M. Moffett".

David M. Moffett  
Lead Independent Director

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# Notice of 2018 Annual Meeting of Stockholders

Date: Wednesday, May 23, 2018

Time: 8:00 a.m. Pacific Time

Place: Online at [pypl.onlineshareholdermeeting.com](http://pypl.onlineshareholdermeeting.com). There is no physical location for the 2018 annual meeting.

Items of Business: (1) Election of 11 director nominees identified in this proxy statement.  
 (2) Advisory vote to approve named executive officer compensation.  
 (3) Approval of the PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan.  
 (4) Approval of the PayPal Holdings, Inc. Amended and Restated Employee Stock Purchase Plan.  
 (5) Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor for 2018.  
 (6) Consideration of three stockholder proposals, if properly presented at the annual meeting.  
 (7) Transaction of such other business as may properly come before the meeting or any adjournment or postponement of the annual meeting.

Record Date: The Board of Directors set April 3, 2018 as the record date for the annual meeting. That means our stockholders of record at the close of business on that date are entitled to receive notice of the annual meeting and to vote at the annual meeting and at any adjournment or postponements of the annual meeting.

Participation in Virtual Meeting: We are pleased to invite you to participate in our annual meeting, which will be conducted exclusively online via webcast. The accompanying proxy materials include instructions on how to participate in the annual meeting and how to vote your shares of common stock by attending the virtual annual meeting by webcast. To submit your questions during the annual meeting, please log on to [pypl.onlineshareholdermeeting.com](http://pypl.onlineshareholdermeeting.com). You will need to enter the 16-digit control number included on your notice of Internet availability of proxy materials, on your proxy card or on the instructions that accompanied your proxy materials to enter the annual meeting. The annual meeting will begin promptly at 8:00 a.m. Pacific Time.

Pre-Meeting: The online format for the annual meeting also allows us to communicate more effectively with you via [www.proxyvote.com](http://www.proxyvote.com). You can submit questions in advance of the annual meeting and access copies of our proxy statement and annual report at [www.proxyvote.com](http://www.proxyvote.com).

Voting: Your vote is very important to us. Regardless of whether you plan to participate in the annual meeting, we hope you will vote as soon as possible. You may vote your shares over the Internet or via a toll-free telephone number. If you received a paper copy of a proxy or voting instruction card by mail, you may submit your proxy or voting instruction card for the annual meeting by completing, signing, dating and returning your proxy or voting instruction card. Stockholders of record and beneficial owners will be able to vote their shares electronically at the annual meeting. For specific instructions on how to vote your shares, please refer to the section "Other Information — Voting Information" beginning on page 83 of this proxy statement.

By Order of the Board of Directors



Brian Y. Yamasaki  
 Vice President, Corporate Legal and Secretary

This notice of annual meeting and proxy statement and form of proxy are being distributed and made available on or about April 12, 2018.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 23, 2018.** This proxy statement and PayPal Holdings, Inc.'s 2017 Annual Report are available electronically at <https://investor.paypal-corp.com/annuals-proxies.cfm> and with your 16-digit control number by visiting [www.proxyvote.com](http://www.proxyvote.com).

# Proxy Statement Summary

This summary highlights certain information contained elsewhere in this proxy statement for the 2018 Annual Meeting of Stockholders (the "Annual Meeting"). This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. References to "PayPal," the "Company," "we," "us," or "our" refer to PayPal Holdings, Inc.

## 2018 Annual Meeting Information

Time and Date:	8:00 a.m. Pacific Time on Wednesday, May 23, 2018
Place:	Online at <a href="http://pypl.onlineshareholdermeeting.com">pypl.onlineshareholdermeeting.com</a> . There is no physical location for the Annual Meeting.
Record Date:	April 3, 2018

## Proposals to be Voted on and Board Voting Recommendations

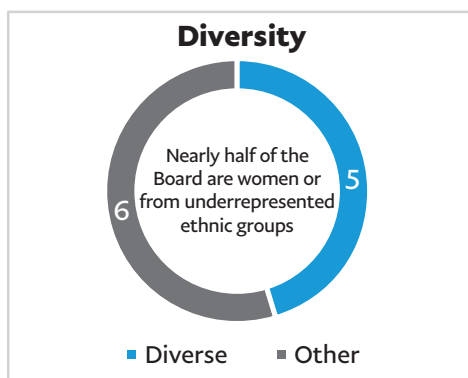
Proposal	Recommendation of the Board	Page
1. Election of 11 director nominees identified in this proxy statement	FOR each of the nominees	7
2. Advisory vote to approve named executive officer compensation	FOR	28
3. Approval of the PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan	FOR	60
4. Approval of the PayPal Holdings, Inc. Amended and Restated Employee Stock Purchase Plan	FOR	68
5. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor for 2018	FOR	73
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## 2018 Director Nominees

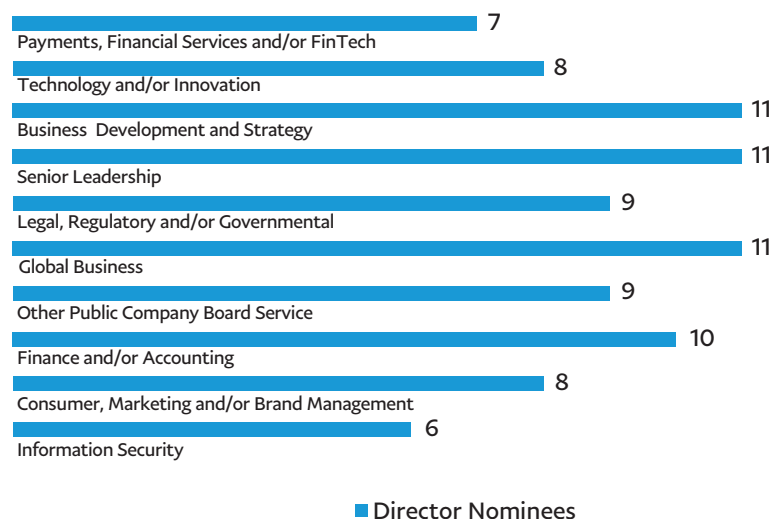
Name & Primary Occupation	Independent	Director since	Committee Memberships*	# of Other Public Company Boards
Rodney C. Adkins President, 3RAM Group LLC	✓	2017	ARC	4
Wences Casares CEO and Founder, Xapo Inc.	✓	2016	Compensation	—
Jonathan Christodoro Former Managing Director, Icahn Capital LP	✓	2015	Compensation	2
John J. Donahoe President and CEO, ServiceNow, Inc.	—	2015	—	2
David W. Dorman Chairman and CEO, AT&T Corporation (retired)	✓	2015	Compensation (Chair) Governance	1
Belinda J. Johnson Chief Operating Officer, Airbnb, Inc.	✓	2017	ARC	—
Gail J. McGovern President and CEO, American Red Cross	✓	2015	Compensation Governance (Chair)	1
David M. Moffett CEO, Federal Home Loan Mortgage Corp. (retired)	✓	2015	ARC (Chair)	2
Ann M. Sarnoff President, BBC Worldwide Americas	✓	2017	ARC	—
Daniel H. Schulman President and CEO, PayPal Holdings, Inc.	—	2015	—	2
Frank D. Yeary Chairman, CamberView Partners, LLC	✓	2015	ARC	1

\* ARC = Audit, Risk and Compliance Committee; Compensation = Compensation Committee; Governance = Corporate Governance and Nominating Committee

Ensuring the Board of Directors of PayPal (the “Board” or the “PayPal Board”) is composed of directors who possess a wide variety of relevant skills, professional experience and backgrounds, bring diverse viewpoints and perspectives, and effectively represent the long-term interests of stockholders, is a top priority of the Board and the Corporate Governance and Nominating Committee. The following provides a snapshot of the diversity, skills, and experience of our director nominees:



### Skills and Experience



## Corporate Governance

Corporate governance at PayPal is designed to promote the long-term interests of our stockholders, strengthen Board and management accountability, foster responsible decision-making, and engender public trust. We believe that strong corporate governance practices that provide meaningful rights to our stockholders and ensure Board and management accountability are essential to our relationship with our stockholders.

The following are the key governance provisions that demonstrate PayPal's commitment to transparency and accountability:

✓ Strong Board independence (nine of 11 director nominees are independent)	✓ Separate Chairman and CEO roles
✓ Independent Chairman or Lead Independent Director with robust responsibilities	✓ All directors stand for annual election
✓ Majority vote standard for uncontested director elections	✓ Strong stockholder engagement practices
✓ Stockholder right to call a special meeting	✓ Proxy access for qualifying stockholders
✓ Simple majority vote standard for charter/bylaw amendments and mergers/business combinations	✓ Robust stock ownership requirements for our executive officers and directors

## Executive Compensation

### OUR COMPENSATION PROGRAM

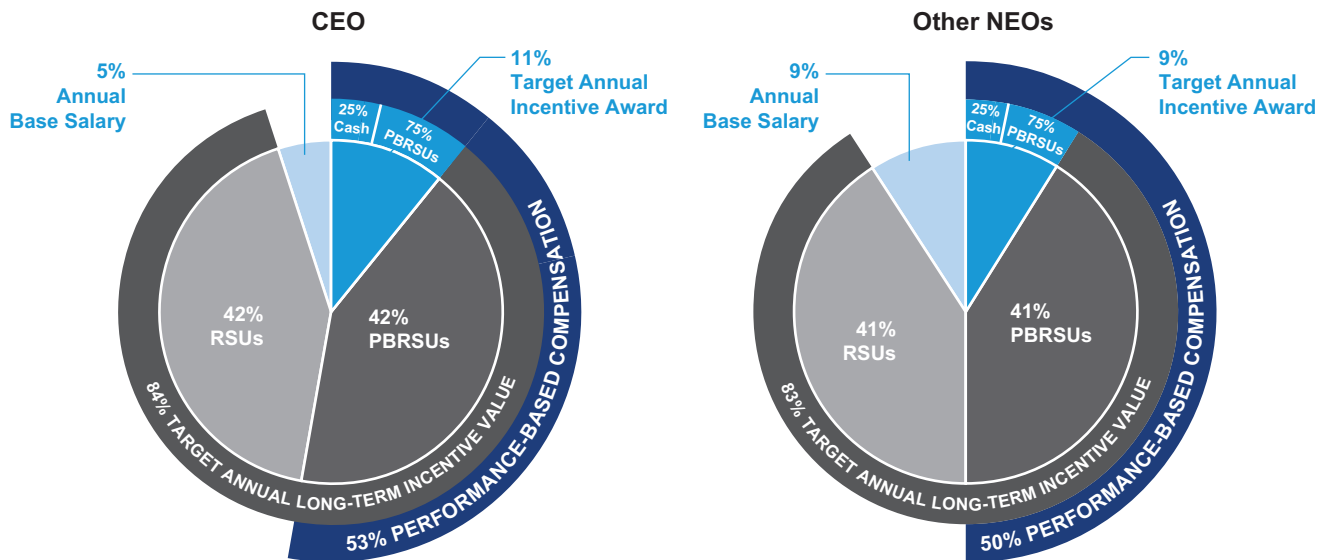
We completed our second year as an independent company in 2017 following our separation from eBay Inc. ("eBay") in July 2015 (the "Separation"), continuing our transformative journey while delivering strong results. For 2017, the Compensation Committee of the Board approved an executive compensation program based on our "pay for performance" philosophy that is designed to align our executive officers' compensation with the key drivers of profitable short-term and long-term growth with the goals of properly incentivizing and rewarding our executives for performance that exceeds expectations, providing transparency for both our executives and our stockholders, and positioning us competitively to enable us to attract and retain our executives. As such, the Compensation Committee prioritized the following compensation philosophy and goals in 2017:

- Simplicity, Transparency and Clarity of our program – enable executives to directly link Company and individual performance to their pay, and enable stockholders to directly link returns on their investment to Company performance;
- One Team – maintain unified goals and objectives for the entire executive leadership team to drive operational decisions and Company performance;
- Winning the War for Talent – recognize the unique financial technology ("FinTech") space in which we compete, and prioritize nimble and aggressive compensation strategies to attract and retain key talent; and
- Individual Performance – ensure compensation is commensurate with results, both on the upside and downside, and that leaders are held accountable for their performance.

## OUR 2017 NEO PAY

We believe that our executive compensation program was effective at incentivizing results in 2017 by appropriately aligning pay and performance. The following charts show the 2017 Target Total Direct Compensation mix for our Chief Executive Officer, Mr. Schulman (our “CEO”), and the average Target Total Direct Compensation mix for our other named executive officers (“NEOs”). Target Total Direct Compensation is the sum of (i) 2017 base salary, (ii) target 2017 annual incentive award (based on the grant date fair value for the portion of the award delivered as PBRsUs) and (iii) target annual long-term incentive award (based on grant date fair values).

**Target Total Direct Compensation Mix**



## OUR PAY PRACTICES

We are committed to maintaining strong governance standards with respect to our executive compensation program, policies, and practices. Consistent with this focus, we maintain the following policies and practices that we believe demonstrate our commitment to executive compensation best practices.

### What We Do

Pay for Performance	✓	A substantial percentage of our NEOs' 2017 Target Total Direct Compensation was performance-based and tied to pre-established performance goals aligned with our short-term and long-term objectives.
Adherence to Rigorous Goals	✓	We use objective performance-based company goals in our annual and long-term incentive plans that we believe are rigorous and designed to incentivize and motivate NEO performance.
Clawback Policy	✓	Our NEOs are subject to a clawback policy, which permits the Compensation Committee to require forfeiture or reimbursement of incentive compensation, including any cash incentive award, equity award, or equity-based award paid or awarded to the NEO during the period in which he or she is subject to the policy, if (i) an action or omission by the NEO constitutes a material violation of our Code of Business Conduct; (ii) an action or omission by the NEO results in material financial or reputational harm to the Company; or (iii) a material restatement of all or a portion of our financial statements is the result of a supervisory or other failure by the NEO.
Robust Stock Ownership Guidelines	✓	Our stock ownership guidelines are designed to align the long-term interests of our NEOs and non-employee directors with those of our stockholders and discourage excessive risk-taking. Our guidelines require stock ownership levels as a value of our common stock equal to a multiple of base salary (6x for CEO and 3x for executive vice presidents (“EVPs”)) or annual retainer (5x for non-employee directors), and include stock retention requirements for executive officers until the required ownership levels are reached.

**What We Do**

Prohibition of Hedging and Pledging Transactions	✓	Our insider trading policy prohibits members of our Board and NEOs from (i) entering into any hedging or monetization transactions relating to our securities or otherwise trading in any instrument relating to the future price of our securities, or (ii) pledging our common stock as collateral for any loans.
Independent Compensation Consultant	✓	The Compensation Committee engages its own independent compensation consultant to advise on executive and non-employee director compensation matters.
Annual Risk Assessment	✓	Based on our annual risk assessment, we have concluded that our compensation program does not present any risk that is reasonably likely to have a material adverse effect on PayPal.
Annual Comparator Peer Group Review	✓	The Compensation Committee, with the assistance of its compensation consultant, reviews the composition of our comparator peer groups annually and makes adjustments to the composition of the peer group as it deems appropriate.
Annual Say-on-Pay Vote	✓	We conduct an annual advisory (non-binding) vote on the compensation of the NEOs (a “say-on-pay” vote). At our 2017 annual meeting of stockholders (the “2017 Annual Meeting”), more than 96% of the votes cast on the say-on-pay proposal were voted in support of the 2016 compensation of the NEOs.
Investor Engagement	✓	In addition to the annual say-on-pay vote, we are committed to ongoing engagement with our investors on executive compensation and governance matters. These engagement efforts take place through teleconferences, in-person meetings and correspondence with our investors.

**What We Don't Do**

No Excise Tax Gross-Ups on Severance Payments	X	We do <u>not</u> provide our NEOs with any gross-ups or other payment or reimbursement of excise taxes on severance or other payments in connection with a change in control of PayPal.
No “Single-Trigger” CIC Payments and Acceleration of Equity Awards	X	We do <u>not</u> make “single-trigger” change-in-control payments or maintain any plans that require single-trigger change-in-control acceleration of equity awards to our NEOs upon a change in control of PayPal.
No Tax Gross-Ups on Perquisites	X	We do <u>not</u> provide our NEOs with tax gross-ups on perquisites, other than in limited circumstances for business-related relocations and international business travel-related benefits that are under our control, at our direction and deemed to benefit our business operations.
No Discounting of Stock Options or Repricing of Underwater Options	X	We expressly <u>prohibit</u> the discounting of stock options and the repricing of underwater stock options without stockholder approval under our equity compensation plan.
No Guaranteed Bonuses	X	Our annual incentive plan is performance-based and our NEOs are <u>not</u> guaranteed any minimum levels of payment.

**SUPPORTING OUR EXECUTIVE COMPENSATION PROGRAM**

The Compensation Committee believes that the goals of our executive compensation program are appropriate and that our executive compensation program supports PayPal's growth strategy and is well aligned with creating long-term stockholder value.



## Proposal 1 — Election of Directors

The eleven directors listed below have been nominated by our Board for election at the Annual Meeting to serve until our 2019 Annual Meeting of Stockholders and until their successors are elected and qualified. All of the nominees are currently members of the Board. All of the director nominees are independent under the listing standards of The NASDAQ Stock Market ("NASDAQ"), except for Mr. Schulman and Mr. Donahoe.

Except for Ms. Sarnoff and Mr. Adkins, each of our current directors has been previously elected by our stockholders. Based upon the recommendations of our Corporate Governance and Nominating Committee (the "Governance Committee"), the Board appointed Ms. Sarnoff as a director in June 2017, and Mr. Adkins as a director in September 2017. Both Ms. Sarnoff and Mr. Adkins were initially identified as potential candidates by our CEO from recommendations he received from third parties.

We expect that each director nominee will be able to serve if elected. If any director nominee is not able to serve, proxies may be voted for substitute nominees, unless the Board chooses to reduce the number of directors serving on the Board.

### MAJORITY VOTE STANDARD

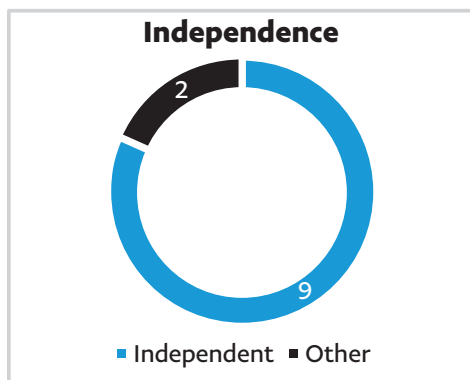
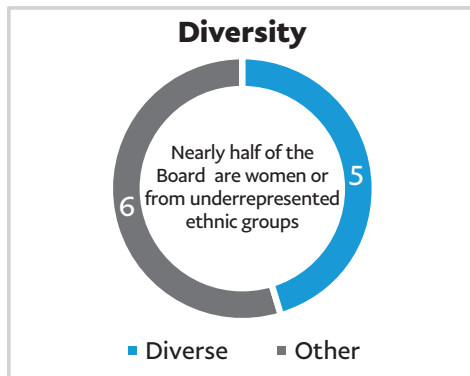
Under our Amended and Restated Bylaws ("Bylaws"), directors must be elected by a majority of the votes cast in uncontested elections, such as the election of directors at the Annual Meeting. This means that the number of votes cast "FOR" a director nominee must exceed the number of votes cast "AGAINST" that nominee. Abstentions and broker non-votes are not counted as votes "FOR" or "AGAINST" a director nominee. As a result, abstentions and broker non-votes will have no effect on the vote for this proposal. If a director nominee who currently serves as a director is not re-elected, Delaware law provides that the director would continue to serve on the Board as a "holdover director." Under our Bylaws and the Governance Guidelines of the Board (the "Corporate Governance Guidelines"), each director submits an advance, contingent, irrevocable resignation that the Board may accept if stockholders do not re-elect that director. Within 90 days of the certification of the stockholder vote (subject to an additional 90-day period in certain circumstances), the Governance Committee or another committee of the Board would make a recommendation to the Board about whether to accept the resignation, and the Board would be required to decide whether to accept the resignation and to publicly disclose its decision and the rationale behind it.

In a contested election, the required vote would be a plurality of votes cast.

### DIRECTOR NOMINEES

The Governance Committee and the Board have evaluated each of the director nominees against the factors and principles used to select director nominees. Based on this evaluation, the Governance Committee and the Board have concluded that it is in the best interests of the Company and its stockholders for each of the proposed director nominees listed below to continue to serve as a director of the Company. The Board believes that each of the director nominees has a strong track record of being a responsible steward of stockholders' interests and brings extraordinarily valuable insight, perspective and expertise to the Board.

The Board and Governance Committee evaluate director nominees based on a number of key qualifications and attributes. The following provides a snapshot of the diversity, skills and experience of our director nominees:



- Highly relevant professional experience in financial services, payments, FinTech, technology, innovation, business development, strategy, legal, regulatory, government, global business, finance, accounting, consumer, marketing, brand management and/or information security;
- Relevant senior leadership/CEO experience;
- High-level managerial experience in complex organizations;
- Experience and expertise that complement the skill sets of the other director nominees;
- High degree of character and integrity and ability to contribute to strong Board dynamics;
- Highly engaged and able to commit the time and resources needed to provide active oversight of PayPal and its management, including attending at least 75% of all of our Board meetings and Board committee meetings for committees on which such director served during 2017;
- Sound business judgment; and
- Commitment to enhancing stockholder value.

The table below summarizes the key skills and experience most relevant to the decision to nominate each of the director nominees to serve on the Board. A mark indicates a specific area of focus or expertise on which the Board particularly relies. Not having a mark does not mean the director nominee does not have that skill or experience. The director nominee biographies below describe each person's background and relevant experience in more detail.

	Adkins	Casares	Christodoro	Donahoe	Dorman	Johnson	McGovern	Moffett	Sarnoff	Schulman	Yeary
Payments, Financial Services and/or FinTech		✓	✓	✓		✓		✓		✓	✓
Technology and/or Innovation	✓	✓		✓	✓	✓	✓		✓	✓	
Business Development and Strategy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Senior Leadership	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Legal, Regulatory and/or Governmental	✓		✓		✓	✓	✓	✓	✓	✓	✓
Global Business	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other Public Company Board Service	✓		✓	✓	✓		✓	✓	✓	✓	✓
Finance and/or Accounting	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Consumer, Marketing and/or Brand Management	✓	✓		✓	✓	✓	✓		✓	✓	
Information Security	✓	✓		✓	✓	✓				✓	

Included in each director nominee's biography below is a description of select key qualifications and experience of such nominee. The Board and the Governance Committee believe that the combination of the various qualifications, skills and experience of the director nominees would contribute to an effective and well-functioning Board and that, individually and collectively, the director nominees possess the necessary qualifications to provide effective oversight of the business and quality advice and counsel to the Company's management.



## Rodney C. Adkins

Age: 59

Director since: September 2017

Board Committees:  
Audit, Risk and Compliance

Other Current Public Company Boards:  
Avnet, Inc.  
PPL Corporation  
United Parcel Service, Inc.  
W.W. Grainger, Inc.

### Key Qualifications and Experience:

- Technology and Innovation
- Business Development and Strategy
- Senior Leadership
- Regulatory and Governmental
- Global Business
- Other Public Company Board Service
- Finance
- Consumer, Marketing and Brand Management
- Information Security

### Biography:

Mr. Adkins has served as a director of PayPal since September 2017. Since January 2015, Mr. Adkins has served as the President of 3RAM Group LLC, a privately held company specializing in capital investments, business consulting services and property management. Formerly, Mr. Adkins was Senior Vice President of International Business Machines Corporation (IBM), a leading manufacturer of information technologies, having served in that position from 2007 until 2014. In his more than 30-year career with IBM, Mr. Adkins held a number of development and management roles, including Senior Vice President of Corporate Strategy from April 2013 to April 2014, Senior Vice President of Systems and Technology Group from October 2009 to April 2013, Senior Vice President of Development & Manufacturing from May 2007 to October 2009, and Vice President of Development of IBM Systems and Technology Group from December 2003 to May 2007. Mr. Adkins serves on the Board of Directors of Avnet, Inc., PPL Corporation, United Parcel Service, Inc., and W.W. Grainger, Inc.

Mr. Adkins received his B.A. in Physics from Rollins College and B.S. and M.S. degrees in Electrical Engineering from Georgia Tech.



## Wences Casares

Age: 44

Director since: January 2016

Board Committees:  
Compensation

Other Current Public Company Boards:  
None

### Key Qualifications and Experience:

- Financial Services and Payments
- Technology and Innovation
- Business Development and Strategy
- CEO Experience
- Global Business
- Consumer, Marketing and Brand Management
- Information Security

### Biography:

Mr. Casares has served as a director of PayPal since January 2016. He is the Founder of Xapo Inc., a bitcoin wallet and vault startup, and has served as its Chief Executive Officer since March 2014. From October 2011 to March 2014, Mr. Casares was Founder and Chief Executive Officer of Lemon Inc., a digital wallet platform. From March 2007 to October 2011, Mr. Casares was Co-Chief Executive Officer of Bling Nation Ltd., a mobile payments platform. He also serves on the Board of Directors of Endeavor Global.



## Jonathan Christodoro

Age: 42

Director since: July 2015

Board Committees:  
Compensation

Other Current Public Company Boards:  
Enzon Pharmaceuticals, Inc.  
Herbalife Ltd

### Key Qualifications and Experience:

- Financial Services
- Business Development and Strategy
- Senior Leadership
- Regulatory and Compliance
- Global Business
- Other Public Company Board Service
- Finance

### Biography:

Mr. Christodoro has served as a director of PayPal since July 2015. He was previously a board member of eBay from March 2015 to July 2015. Mr. Christodoro served as a Managing Director of Icahn Capital LP, the entity through which Carl C. Icahn manages investment funds, from July 2012 to February 2017. Prior to joining Icahn Capital, Mr. Christodoro served in various investment and research roles at P2 Capital Partners, LLC, a company with investments in technology and distribution, from March 2007 to July 2012. Mr. Christodoro began his career as an investment banking analyst at Morgan Stanley, where he focused on merger and acquisition transactions across a variety of industries. Mr. Christodoro also serves on the Board of Directors of Enzon Pharmaceuticals, Inc., and Herbalife Ltd. Mr. Christodoro was previously a director of: Hologic, Inc., a supplier of diagnostic, medical imaging and surgical products, from December 2013 to March 2016; eBay, a global commerce and payments company, from March 2015 to July 2015; Talisman Energy Inc., an independent oil and gas exploration and production company, from December 2013 to May 2015; American Railcar Industries, Inc., a railcar manufacturing company, from June 2015 to February 2017; Xerox Corporation from June 2016 to December 2017; and Cheniere Energy, Inc. from August 2015 to August 2017.

Mr. Christodoro received an M.B.A from the University of Pennsylvania's Wharton School of Business. Mr. Christodoro received a B.S. in Applied Economics and Management Magna Cum Laude from Cornell University. Mr. Christodoro also served in the United States Marine Corps.



## John J. Donahoe

Age: 57

Director since: July 2015

Board Committees:  
None

Other Current Public Company Boards:  
Nike, Inc.  
ServiceNow, Inc.

### Key Qualifications and Experience:

- Payments and FinTech
- Technology
- Business Development and Strategy
- CEO Experience
- Global Business
- Other Public Company Board Service
- Finance
- Consumer and Marketing
- Information Security

### Biography:

Mr. Donahoe has served as Chairman of the PayPal Board since July 2015. Since April 2017, Mr. Donahoe has served as the President and Chief Executive Officer of ServiceNow, Inc., an enterprise cloud company. He served as the President and Chief Executive Officer of eBay from March 2008 to July 2015, and was a director of eBay, from January 2008 to July 2015. From March 2005 to January 2008, Mr. Donahoe served as President, eBay Marketplaces. From January 2000 to February 2005, Mr. Donahoe served as the Worldwide Managing Director of Bain & Company. Mr. Donahoe also serves on the Board of Directors of Nike, Inc. and ServiceNow, Inc.

Mr. Donahoe received his B.A. in Economics from Dartmouth College and an M.B.A. from the Stanford Graduate School of Business.



## David W. Dorman

Age: 64

Director since: June 2015

Board Committees:  
Compensation (Chair)  
Governance

Other Current Public Company Boards:  
CVS Health Corporation

### Key Qualifications and Experience:

- Technology
- Business Development and Strategy
- CEO Experience
- Regulatory and Compliance
- Global Business
- Other Public Company Board Service
- Finance and Accounting
- Consumer and Marketing
- Information Security

### Biography:

Mr. Dorman has served as a director of PayPal since June 2015. He previously served as a board member of eBay from June 2014 to July 2015. Mr. Dorman has been the Non-Executive Chairman of the Board of CVS Health Corporation, a pharmacy healthcare provider, since May 2011, and is the former Chairman and Chief Executive Officer of AT&T Corporation, a telecommunications company (formerly known as SBC Communications Inc.). He is also Founding Partner of Centerview Capital, a private investment firm, since July 2013. He was formerly Non-Executive Chairman of the Board of Motorola Solutions, Inc. (formerly Motorola, Inc.), a leading provider of business and mission-critical communication products and services for enterprise and government customers. He served as Non-Executive Chairman of the Board of Motorola, Inc. from May 2008 until the separation of its mobile devices and home businesses in January 2011. From October 2006 to May 2008, he was a Senior Advisor and Managing Director to Warburg Pincus LLC, a global private equity firm. From November 2005 until January 2006, Mr. Dorman served as President and a director of AT&T Corporation. From November 2002 until November 2005, Mr. Dorman was Chairman of the Board and Chief Executive Officer of AT&T Corporation. Prior to this, he was President of AT&T Corporation from 2000 to 2002 and the Chief Executive Officer of Concert Communications Services, a former global venture created by AT&T Corporation and British Telecommunications plc, from 1999 to 2000. Mr. Dorman also serves on the Board of Directors of CVS Health Corporation and as a Trustee for Georgia Tech Foundation, Inc. He was a board member of Yum! Brands until May 2017.

Mr. Dorman received his B.S. in industrial management from Georgia Institute of Technology.



## Belinda J. Johnson

Age: 51

Director since: January 2017

Board Committees:  
Audit, Risk and Compliance

Other Current Public Company Boards:  
None

### Key Qualifications and Experience:

- Payments
- Technology
- Business Development and Strategy
- Senior Leadership
- Legal and Regulatory
- Global Business
- Finance
- Consumer, Marketing and Brand Management
- Information Security

### Biography:

Ms. Johnson has served as a director of PayPal since January 2017. In February 2018, she was appointed as the Chief Operating Officer of Airbnb, Inc., a global community marketplace which provides access to unique accommodations. Prior to this, she was the Chief Business Affairs and Legal Officer of Airbnb, from July 2015 to February 2018 and joined Airbnb as General Counsel in December 2011. Prior to joining Airbnb, from August 1999 until August 2011, Ms. Johnson served in various positions at Yahoo! Inc., a digital information platform, including most recently as Senior Vice President and Deputy General Counsel. From November 1996 to August 1999, Ms. Johnson was General Counsel of Broadcast.com, Inc., an Internet broadcasting company.

Ms. Johnson received her B.A. from The University of Texas at Austin and her J.D. from The University of Texas Law School.



## Gail J. McGovern

Age: 66

Director since: June 2015

### Board Committees:

Compensation  
Governance (Chair)

### Other Current Public Company Boards:

DTE Energy Company

### Key Qualifications and Experience:

- Technology
- Business Development and Strategy
- CEO Experience
- Regulatory and Compliance
- Global Business
- Other Public Company Board Service
- Finance
- Consumer and Marketing

### Biography:

Ms. McGovern has served as a director of PayPal since June 2015. She previously served as a board member of eBay from March 2015 to July 2015. Ms. McGovern is the President and Chief Executive Officer of the American Red Cross, a humanitarian organization, and has served in that position since June 2008. Ms. McGovern also serves as a trustee of John Hopkins Medicine, a director of DTE Energy Company, and an advisor to The Weather Channel.

Ms. McGovern received her B.A. in quantitative sciences from Johns Hopkins University and her M.B.A. from Columbia University.



## David M. Moffett

Age: 66

Director since: June 2015

### Board Committees:

Audit, Risk and Compliance (Chair)

### Other Current Public Company Boards:

CSX Corporation  
Genworth Financial, Inc.

### Key Qualifications and Experience:

- Payments
- Business Development and Strategy
- CEO Experience
- Governmental, Regulatory and Compliance
- Global Business
- Other Public Company Board Service
- Finance and Accounting

### Biography:

Mr. Moffett has served as a director of PayPal since June 2015 and as Lead Independent Director since July 2015. He was previously a board member of eBay from July 2007 to July 2015. Mr. Moffett served as Chief Executive Officer of Federal Home Loan Mortgage Corp. ("Freddie Mac") from September 2008 until his retirement in March 2009. He also served as a director of Freddie Mac from December 2008 to March 2009. In 1993, Mr. Moffett joined Star Banc Corporation, a bank holding company, as Chief Financial Officer and during his tenure played an integral role in the acquisition of Firststar Corporation in 1998 and later U.S. Bancorp in 2001. Mr. Moffett remained Chief Financial Officer of U.S. Bancorp until 2007. Mr. Moffett also serves on the Board of Directors of CSX Corporation, Genworth Financial, Inc. and as a Trustee for Columbia Atlantic Mutual Funds and University of Oklahoma Foundation and as a consultant to various financial services companies.

Mr. Moffett received a B.A. from the University of Oklahoma and an M.B.A. from Southern Methodist University.





## Ann M. Sarnoff

Age: 56

Director since: June 2017

Board Committees:  
Audit, Risk and Compliance

Other Current Public Company Boards:  
None

### Key Qualifications and Experience:

- Technology
- Business Development and Strategy
- Senior Leadership
- Regulatory
- Global Business
- Other Public Company Board Service
- Finance
- Consumer and Marketing

### Biography:

Ms. Sarnoff has served as a director of PayPal since June 2017. Since August 2015, Ms. Sarnoff has served as the President of BBC Worldwide Americas, a media company that delivers high-quality, innovative and intelligent programming. From 2010 through July 2015, she served as Chief Operating Officer of BBC Worldwide North America. She is also the chair of the board of BritBox, a joint venture subscription streaming service launched in partnership with ITV in March of 2017, and sits on the board, operating committee and editorial committee of BBC America, a joint venture with AMC Networks. From June 2006 until joining BBC Worldwide in 2010, Ms. Sarnoff was President of Dow Jones Ventures and Senior Vice President of Strategy for Dow Jones & Company, Inc. She is also a member of the board of Georgetown University, as the vice chair of the McDonough School of Business at Georgetown, and is on the board of the Harvard Business School Women's Association of New York. Ms. Sarnoff previously served on the Board of HSN, Inc., an interactive multichannel retailer from December 2012 to December 2017.

Ms. Sarnoff received her B.S. from Georgetown University's McDonough School of Business and her MBA from Harvard Business School.



## Daniel H. Schulman

Age: 60

Director since: July 2015

Board Committees:  
None

Other Current Public Company Boards:  
Flex Ltd.  
Symantec Corporation

### Key Qualifications and Experience:

- Payments, Financial Services and FinTech
- Technology
- Business Development and Strategy
- CEO Experience
- Legal, Regulatory and Governmental
- Global Business
- Other Public Company Board Service
- Finance and Accounting
- Consumer, Marketing and Brand Management
- Information Security

### Biography:

Mr. Schulman has served as President and Chief Executive Officer of PayPal since July 2015. He had served as the President and CEO-Designee of PayPal from September 2014 until July 2015. From August 2010 to August 2014, Mr. Schulman served as Group President, Enterprise Group of American Express Company, a financial services company. Mr. Schulman was President, Prepaid Group of Sprint Nextel Corporation, a cellular phone service provider, from November 2009 until August 2010, when Sprint Nextel acquired Virgin Mobile, USA, a cellular phone service provider. Mr. Schulman also serves on the Board of Directors of Flex Ltd. and Symantec Corporation.

Mr. Schulman received a B.A. from Middlebury College and an M.B.A. from New York University's Leonard N. Stern School of Business.



## Frank D. Yeary

Age: 54

Director since: July 2015

### Board Committees:

Audit, Risk and Compliance

### Other Current Public Company Boards:

Intel Corporation

### Key Qualifications and Experience:

- Financial Services
- Business Development and Strategy
- Senior Leadership
- Governmental, Regulatory and Compliance
- Global Business
- Other Public Company Board Service
- Finance and Accounting

### Biography:

Mr. Yeary has served as a director of PayPal since July 2015. He previously served as a board member of eBay from January 2015 to July 2015. Mr. Yeary has been Chairman of CamberView Partners, LLC, a corporate advisory firm, since 2012. Mr. Yeary was Vice Chancellor of the University of California, Berkeley, a public university, from 2008 to 2012, where he led and implemented changes to the university's financial and operating strategy. Prior to 2008, Mr. Yeary spent 25 years in the finance industry, most recently as Managing Director, Global Head of Mergers and Acquisitions and a member of the Management Committee at Citigroup Investment Banking, a financial services company. Mr. Yeary also serves on the Board of Directors of Intel Corporation.

Mr. Yeary received his B.A. in History and Economics from the University of California, Berkeley.

**The Board Recommends a Vote **FOR** each of the Named Director Nominees.**

## CONSIDERATION OF DIRECTOR NOMINEES

### Stockholder Recommendations and Nominations

The Governance Committee is responsible for recommending to the Board a slate of nominees for election at each annual meeting of stockholders for PayPal. Nominees may be suggested by directors, members of management, stockholders, or by a third-party firm. In evaluating potential director nominees, the Governance Committee considers a wide range of factors, including the criteria described below under "Director Selection Process and Qualifications."

Stockholders who would like the Governance Committee to consider their recommendations for director nominees should submit their recommendations in writing by mail to the Governance Committee in care of our Corporate Secretary at PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131, stating the candidate's name and qualifications for Board membership. Recommendations by stockholders that are made in accordance with these procedures will receive the same consideration by the Governance Committee as other suggested nominees.

In addition, our Restated Certificate of Incorporation ("Certificate of Incorporation") and Bylaws provide proxy access rights that permit eligible stockholders to nominate candidates for election to the Board in the Company's proxy statement. These proxy access rights permit a stockholder, or group of up to 20 stockholders, owning 3% or more of the Company's outstanding common stock continuously for at least three years to nominate and include in the Company's proxy materials director nominees constituting up to 20% of the Board, provided that the stockholder(s) and nominee(s) satisfy the requirements and procedures described in our Certificate of Incorporation and Bylaws.

### Director Selection Process and Qualifications

The Governance Committee is responsible for recommending to the Board the qualifications for Board membership and for identifying, assessing and recommending qualified director candidates for the Board's consideration. The Board's membership qualifications and nomination procedures are set forth in the Corporate Governance Guidelines.



The Board and Governance Committee consider the following factors and principles in evaluating and selecting director nominees:

- Directors should have high-level managerial experience in a relatively complex organization or be accustomed to dealing with complex problems;
- Directors should represent the balanced, best interests of the stockholders as a whole rather than special interest groups or constituencies;
- Directors should be individuals of the highest character and integrity, with the ability to work well with others and with sufficient time available to devote to the affairs of the Company in order to carry out their responsibilities;
- In addressing the overall composition of the Board, diversity (including gender, race and ethnicity), age, international background, and expertise should be considered in evaluating potential Board members;
- The interplay of a candidate's background and expertise with that of other Board members, and the extent to which a candidate may be a desirable addition to any Board committee should be considered;
- The Board should include individuals with highly relevant professional experience; and
- The Board should be composed of directors who are highly engaged with our business.

In particular, the Governance Committee values diversity as a factor in selecting nominees. When searching for new directors, the Governance Committee actively seeks out qualified women and individuals from underrepresented ethnic groups to include in the pool from which Board nominees are chosen.

From time to time, the Governance Committee may retain an executive search firm to assist in identifying, screening and evaluating potential candidates.

## Director Compensation

The Compensation Committee is responsible for reviewing and making recommendations to the Board regarding compensation paid to non-employee directors for their Board and committee services. On an annual basis, the Compensation Committee reviews the non-employee director compensation program, receiving input from the Compensation Committee's independent consultant regarding market practices and the competitiveness of the non-employee director compensation program in relation to the general market and the Company's peer group.

### 2017 DIRECTOR COMPENSATION

For 2017, each non-employee director of the Company received the following annual retainers on the first trading day after January 1, 2017, other than Mr. Omidyar, who did not receive any compensation for his services as a Board member and did not stand for re-election at PayPal's 2017 Annual Meeting:

#### 2017 Annual Retainers:

All Non-Employee Directors	\$ 80,000/year
Non-Executive Board Chair	\$100,000/year
Lead Independent Director	\$ 75,000/year
ARC Committee Chair	\$ 25,000/year
Compensation Committee Chair and Governance Committee Chair	\$ 20,000/year
ARC Committee Member	\$ 20,000/year
Compensation Committee Member	\$ 18,000/year
Governance Committee Member	\$ 10,000/year

A non-employee director who serves as a Board Chair or as the chair of a committee will be entitled to the Board Chair annual retainer and/or committee chair annual retainer in addition to the non-employee director annual retainer, but will not be entitled to the committee member annual retainer for serving as a member of that specific committee.

A non-employee director may elect to receive 100% of his/her annual retainer(s) in fully vested stock awards of PayPal common stock having a value equal to the annual retainer(s) in lieu of cash.

If a non-employee director is elected or appointed to serve as a member of the Board, or appointed to serve as a member of a committee or as a chair of a committee in which he/she was not a member prior to such appointment, following the annual retainer payment date for such calendar year (i.e., the first trading day after January 1 of such year), such non-employee director will receive a prorated annual retainer, based on the number of days from the appointment/election date to December 31 of such year.

**2017 Equity Awards:**

In addition to the annual retainers, all non-employee directors of PayPal received the following fully vested stock awards of PayPal common stock following PayPal's annual meeting of stockholders:

All Non-Employee Directors	\$250,000 in PayPal common stock
Board Chair <sup>1</sup>	\$100,000 in PayPal common stock

<sup>1</sup> The Board Chair receives \$100,000 in PayPal common stock in addition to the \$250,000 in PayPal common stock that he/she receives for services as a non-employee director.

The number of shares of PayPal common stock subject to the stock award is determined by dividing the amount of the annual equity award by the per share fair market value (i.e., the closing price of our common stock) on the date of the annual stockholders meeting, rounded up to the nearest whole share.

Effective June 2017, if a non-employee director is appointed or elected at any time other than at an annual stockholders meeting, such director will be eligible to receive a prorated annual equity award, as of the date of his or her appointment or election, for the period prior to the first annual stockholders meeting following his or her appointment or election, determined by (i) multiplying the amount of the annual equity award (i.e., \$250,000 and, with respect to the additional equity award to the Board Chair, \$100,000) by a fraction, the numerator of which is the number of days from the date of appointment or election to the first anniversary of the most recent annual stockholders meeting, and the denominator of which is 365, and (ii) dividing such amount by the per share fair market value on the date of appointment or election, rounded up to the nearest whole share.

**2018 DIRECTOR COMPENSATION**

Effective January 1, 2018, each non-employee director of the Company will receive the following annual retainer on the first trading day after January 1 of each year in which the director serves as a non-employee director of the Company:

**2018 Annual Retainers:**

All Non-Employee Directors	\$ 80,000/year
Non-Executive Board Chair	\$100,000/year
Lead Independent Director	\$ 75,000/year
ARC Committee Chair	\$ 40,000/year
Compensation Committee Chair and Governance Committee Chair	\$ 20,000/year
ARC Committee Member	\$ 20,000/year
Compensation Committee Member	\$ 18,000/year
Governance Committee Member	\$ 10,000/year

**2018 Equity Awards:**

In addition to the annual retainers, all non-employee directors of PayPal will receive the following fully vested stock awards of PayPal common stock following PayPal's annual meeting of stockholders:

All Non-Employee Directors	\$275,000 in PayPal common stock
Board Chair <sup>1</sup>	\$100,000 in PayPal common stock

<sup>1</sup> The Board Chair receives \$100,000 in PayPal common stock in addition to the \$275,000 in PayPal common stock that he/she receives for services as a non-employee director.

**2017 DIRECTOR COMPENSATION TABLE**

The following table summarizes the total compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2017.

<b>Name</b>	<b>Fees Earned or Paid in Cash<sup>(1)</sup> (\$)</b>	<b>Stock Awards<sup>(2)</sup> (\$)</b>	<b>Option Awards<sup>(2)</sup> (\$)</b>	<b>Total (\$)</b>
Rodney C. Adkins	26,575	165,092	—	191,667
Wences Casares	98,000	250,043	—	348,043
Jonathan Christodoro	98,000	250,043	—	348,043
John J. Donahoe	180,000	350,050	—	530,050
David W. Dorman	110,000	250,043	—	360,043
Belinda J. Johnson	96,986	250,043	—	347,029
Gail J. McGovern	120,000	250,043	—	370,043
David M. Moffett	180,000	250,043	—	430,043
Pierre M. Omidyar	—	—	—	—
Ann M. Sarnoff	51,506	227,424	—	278,930
Frank D. Yeary	100,000	250,043	—	350,043

<sup>1</sup> The amounts reported in the Fees Earned or Paid in Cash column reflect the cash fees earned by each non-employee director in 2017, which includes fees with respect to which the following directors elected to receive fully vested shares of PayPal stock in lieu of cash:

<b>Name</b>	<b>Fees Forgone (\$)</b>	<b>Shares Received (#)</b>
Rodney C. Adkins	26,575	423
Wences Casares	98,000	2,435
John J. Donahoe	180,000	4,473
David W. Dorman	110,000	2,733
Belinda J. Johnson	96,986	2,334
Ann M. Sarnoff	51,506	977

<sup>2</sup> Amounts shown represent the grant date fair value of the stock awards granted on May 25, 2016 to our directors as computed in accordance with FASB ASC Topic 718. As of December 31, 2017, our non-employee directors held the following deferred stock units ("DSUs") and stock options.

<b>Name</b>	<b>Total DSUs Held as of 12/31/17 (#)</b>	<b>Total Options Held as of 12/31/17 (#)</b>
Rodney C. Adkins	—	—
Wences Casares	—	—
Jonathan Christodoro	5,353	—
John J. Donahoe	2,464	198,513
David W. Dorman	9,488	—
Belinda J. Johnson	—	—
Gail J. McGovern	3,711	—
David M. Moffett	49,001	—
Pierre M. Omidyar	—	—
Ann M. Sarnoff	—	—
Frank D. Yeary	5,460	—

# Corporate Governance

Corporate governance at PayPal is designed to promote the long-term interests of our stockholders, strengthen Board and management accountability, foster responsible decision-making, and engender public trust. We believe that strong corporate governance practices that provide meaningful rights to our stockholders and ensure Board and management accountability are essential to our relationship with our stockholders. We strive to have regular, constructive conversations with our stockholders to better understand their priorities and perspectives, and to provide us with useful input concerning our corporate governance and compensation practices.

To help our stockholders understand our commitment to this relationship and our governance practices, the Board has adopted the Corporate Governance Guidelines of the Board of Directors ("Governance Guidelines") to serve as a framework within which the Board conducts its business. Our Governance Guidelines, charters of our principal Board committees, our Code of Business Conduct and Ethics ("Code of Business Conduct"), and other key corporate governance documents and materials are available on our investor relations website at <https://investor.paypal-corp.com/corporate-governance.cfm>.

The following sections provide an overview of PayPal's corporate governance practices.

## The Board's Role and Responsibilities

The Board is responsible for providing advice and oversight of the strategic and operational direction of the Company and overseeing its executive management to support the long-term interests of the Company and its stockholders.

### RISK OVERSIGHT

Management is responsible for assessing and managing risk, subject to oversight by the Board. The Board executes its oversight responsibility for risk assessment and risk management directly and through its committees.

In January 2017, the Audit Committee of the Board was renamed the Audit, Risk and Compliance Committee (the "ARC Committee") to more accurately reflect the scope of the committee's role with respect to oversight of risk and compliance matters. The Board has delegated to the ARC Committee primary responsibility for the oversight of the risk framework and risk appetite framework at PayPal. In accordance with its charter, the ARC Committee oversees and assesses the Company's overall risk management framework, including policies and practices established by management to identify, assess, measure and manage key current and emerging risks facing the Company. The ARC Committee reviews with our Chief Business Affairs and Legal Officer and Chief Risk, Compliance and Security Officer, as applicable, significant legal, regulatory or compliance matters that could have a material impact on our financial statements, business, or compliance policies, including material notices to or inquiries received from governmental agencies.

To oversee and manage risk, we have established an Enterprise Risk and Compliance Management Program ("ERCMP"). The ERCMP sets forth the Company's programmatic approach to identifying, measuring, managing, monitoring, and reporting key risks facing our Company, including financial crime compliance risk, regulatory compliance risk, technology risk, operational risk, credit risk, capital structure risk, and strategic risk. The ERCMP is designed to enable the ARC Committee to have effective oversight over the Company's risk framework, including the Company's risk management practices and capabilities. The ARC Committee periodically reviews the Company's Enterprise Risk and Compliance Management Policy and other key risk management policies. The ARC Committee also regularly reviews and discusses with management the overall effectiveness of, and ongoing enhancements to, the ERCMP. In addition, the ARC Committee discusses key risk areas with management throughout the year. The ARC Committee reports to the entire Board on a regular basis.

The other principal Board committees are responsible for oversight of risks associated with their respective areas of responsibility. For example, the Compensation Committee reviews the risks associated with our compensation policies and practices. Management has assessed the Company's compensation policies and practices and concluded that they do not create risks that are reasonably likely to have a material adverse effect on the Company, and the Compensation Committee agreed with this conclusion. The Governance Committee reviews the risks associated with our overall corporate governance.

### BOARD AND COMMITTEE EVALUATIONS

The Board and its principal committees perform an annual self-assessment to assess their performance and effectiveness and to identify opportunities to improve Board and committee performance. As part of this annual self-assessment, directors are able to provide feedback on the performance of other directors. The Chairman and Lead Independent Director then follows up on this feedback and takes such further action with directors receiving comments and other directors as needed.

### DIRECTOR ORIENTATION AND CONTINUING EDUCATION

Our director orientation program familiarizes new directors with the Company's businesses, strategies, and policies, and assists them in developing the skills and knowledge required for their service on the Board and any committees on which they serve. All other directors are also invited to attend the orientation programs. From time to time, management provides, or invites outside

experts to attend Board meetings to provide, educational briefings to the Board on business, corporate governance, regulatory and other matters. In addition, Board members may attend, at the Company's expense, accredited director education programs.

## SUCCESSION PLANNING

The Board recognizes the importance of effective executive leadership to PayPal's success and annually reviews executive succession planning. As part of this process, the Board reviews and discusses the capabilities of our senior leadership, as well as succession planning and potential successors for the CEO and our other executive officers. The process includes consideration of organizational and operational needs, competitive challenges, leadership/management potential and development, and emergency situations.

## CODE OF BUSINESS CONDUCT

We expect our directors, officers, and employees to conduct themselves with the highest degree of integrity, ethics, and honesty. Our credibility and reputation depend upon the good judgment, ethical standards, and personal integrity of each director, officer, and employee. PayPal's Code of Business Conduct requires that its directors, executive officers, and other employees disclose actual or potential conflicts of interest and recuse themselves from related decisions. We regularly review the Code of Business Conduct and related policies to ensure that they provide clear guidance to our directors, executive officers, and employees. The Code of Business Conduct is available at <https://investor.paypal-corp.com/corporate-governance.cfm>. Concerns about accounting or auditing matters or possible violations of our Code of Business Conduct should be reported under the procedures outlined in the Code of Business Conduct.

## OUTSIDE ADVISORS

The Board may retain outside legal, accounting, or other advisors as it deems necessary or appropriate at the Company's expense and without obtaining management's consent. Each principal committee of the Board may also retain outside legal, accounting or other advisors as it deems necessary or appropriate at the Company's expense and without obtaining the Board's or management's consent.

## Director Independence

Under the listing standards of NASDAQ and our Corporate Governance Guidelines, the Board must consist of a majority of independent directors. Annually, each director completes a questionnaire designed to provide information to assist the Board in determining whether the director is independent under the listing standards of NASDAQ and our Corporate Governance Guidelines, and whether members of the ARC Committee and Compensation Committee satisfy additional Securities and Exchange Commission ("SEC") and NASDAQ independence requirements. The Board has adopted guidelines setting forth certain categories of transactions, relationships, and arrangements that it has deemed immaterial for purposes of making determinations regarding a director's independence, and the Board does not consider any of those transactions, relationships, and arrangements in determining director independence.

Based on its review, the Board has determined that each of the following directors is independent under the listing standards of NASDAQ and our Corporate Governance Guidelines, and is free of any relationship that would interfere with his or her individual exercise of independent judgment:

Rodney C. Adkins	Gail J. McGovern
Wences Casares	David M. Moffett
Jonathan Christodoro	Pierre M. Omidyar <sup>1</sup>
David W. Dorman	Ann M. Sarnoff
Belinda J. Johnson	Frank D. Yeary

<sup>1</sup> Mr. Omidyar did not stand for re-election at PayPal's 2017 Annual Meeting.

The Board limits membership on its ARC Committee, Compensation Committee, and Governance Committee to independent directors. Our Corporate Governance Guidelines prohibit directors from serving on the board of directors, or as an officer, of another company that may cause a significant conflict of interest. Our Corporate Governance Guidelines also provide that any director who has previously been determined to be independent must inform the Lead Independent Director and our Corporate Secretary of any significant change in personal circumstances, including a change in principal occupation, change in professional roles and responsibilities or status as a member of the board of another public company, including retirement, as well as any change in circumstance that may cause his or her status as an independent director to change.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Compensation Committee is or has been an employee of PayPal. None of our executive officers served on the board of directors or compensation committee of another entity which has an executive officer serving on the Board or the Compensation Committee.

## Board Leadership and Lead Independent Director

In accordance with our Bylaws, our Board elects our Chairman of the Board and our CEO. Our Corporate Governance Guidelines provide that the Chairman and CEO roles should be held by separate individuals as an aid in the Board's oversight of management and to allow the CEO to focus primarily on management responsibilities. Mr. Donahoe currently serves as our Chairman.

In March 2017, Mr. Moffett was appointed by the Board to serve an additional two-year term as Lead Independent Director, effective upon the conclusion of our 2017 Annual Meeting, subject to his continuing reelection and status as an independent director. The Lead Independent Director's responsibilities are detailed in our Corporate Governance Guidelines, and include:

- Providing the Chairman with input as to an appropriate schedule of Board meetings;
- Providing the Chairman with input as to the preparation of agendas for Board meetings;
- Providing the Chairman with input as to the quality, quantity, and timeliness of the flow of information from the Company's management that is necessary for the independent directors to effectively and responsibly perform their duties;
- Making recommendations to the Chairman regarding the retention of consultants who report directly to the Board (other than consultants who are selected by the various committees of the Board);
- Presiding over executive sessions of the Board;
- Acting as a liaison between the Independent Directors and the Chairman and CEO on sensitive issues;
- Together with the Chairman, leading the Board in its review of the results of the annual self-assessment process, including acting on director feedback as needed; and
- Together with the Chairman, conducting interviews to confirm the continued qualification and willingness to serve of each director whose term is expiring at an annual meeting prior to the time at which directors are nominated for re-election.

## Board Committees

The Board has three principal standing committees: the ARC Committee, the Compensation Committee, and the Governance Committee. Each committee has a written charter, available on the corporate governance section of our investor relations website at <https://investor.paypal-corp.com/corporate-governance.cfm>, which describes in more detail its specific responsibilities and functions. The table below provides the current membership for each principal Board committee.

	<b>ARC Committee</b>	<b>Compensation Committee</b>	<b>Governance Committee</b>
Rodney C. Adkins	Member	—	—
Wences Casares	—	Member	—
Jonathan Christodoro	—	Member	—
John J. Donahoe	—	—	—
David W. Dorman	—	Chair	Member
Belinda J. Johnson	Member	—	—
Gail J. McGovern	—	Member	Chair
David M. Moffett	Chair	—	—
Ann M. Sarnoff	Member	—	—
Daniel H. Schulman	—	—	—
Frank D. Yeary	Member	—	—

Below is a description of each principal committee of the Board.

## ARC Committee

### Members:

Rodney C. Adkins (since Sept. 2017)  
 Belinda J. Johnson (since Jan. 2017)  
 David M. Moffett (Chair)  
 Ann M. Sarnoff (since June 2017)  
 Frank D. Yearly

### Committee Meetings in 2017: 11

### Charter:

The ARC Committee Charter, as adopted by the Board, is available on our website at <https://investor.paypal-corp.com/corporate-governance.cfm>

### Primary Responsibilities

Provide assistance and guidance to the Board in fulfilling its oversight responsibilities with respect to:

- PayPal's corporate accounting and financial reporting practices and the audit of PayPal's financial statements;
- The independent auditors, including their qualifications and independence;
- The performance of PayPal's internal audit function and independent auditor;
- The quality and integrity of PayPal's financial statements and reports;
- Reviewing and approving all audit engagement fees and terms, as well as all non-audit engagements with the independent auditor;
- Producing the Audit Committee Report for inclusion in our proxy statement;
- PayPal's overall risk framework and risk appetite framework; and
- PayPal's compliance with legal and regulatory obligations.

### Independence

The Board has determined that each member of the ARC Committee meets the independence requirements of NASDAQ and the SEC and otherwise satisfies the requirements for audit committee service imposed by the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Board has also determined that each member of the ARC Committee is financially literate and that Mr. Moffett is an "audit committee financial expert" as defined by SEC rules.

## Compensation Committee

### Members:

Wences Casares  
 Jonathan Christodoro  
 David W. Dorman (Chair)  
 Gail J. McGovern (since Sept. 2017)

### Committee Meetings in 2017: 5

### Charter:

The Compensation Committee Charter, as adopted by the Board, is available on our website at <https://investor.paypal-corp.com/corporate-governance.cfm>

### Primary Responsibilities

- Review and approve the overall strategy for employee compensation and all compensation programs applicable to directors and executive officers;
- Annually review and approve corporate goals and objectives relevant to the compensation of the CEO and evaluate the CEO's performance;
- Review, determine and approve the compensation for the CEO and our other executive officers;
- Oversee and monitor compliance with the Company's stock ownership guidelines applicable to directors and executive officers;
- Review and discuss the Compensation Discussion and Analysis contained in our proxy statement and prepare the Compensation Committee Report for inclusion in our proxy statement; and
- Review and consider the results of any advisory stockholder votes on executive compensation.

The charter of the Compensation Committee permits the Compensation Committee, in its discretion, to delegate all or a portion of its duties and responsibilities to a subcommittee or any member of the Compensation Committee or, subject to applicable law, listing standards and the terms of the charter, any officer(s) of the Company.

### Independence

The Board has determined that each member of the Compensation Committee meets the independence requirements of NASDAQ and the SEC.

Additionally, the Compensation Committee assesses on an annual basis the independence of its compensation consultants, outside legal counsel, and other compensation advisers. Additional disclosure regarding the role of the Compensation Committee in compensation matters, including the role of consultants in compensation decisions, can be found below under the section "Compensation Discussion and Analysis — Other Compensation Practices and Policies — Roles and Responsibilities — Compensation Consultant."



## Governance Committee

### Members:

David W. Dorman  
Gail J. McGovern (Chair)

### Committee Meetings in 2017: 3

### Charter:

The Governance Committee Charter, as adopted by the Board, is available on our website at <https://investor.paypal-corp.com/corporate-governance.cfm>

### Primary Responsibilities

- Make recommendations to the Board as to the appropriate size of the Board or any Board committee;
- Identify individuals believed to be qualified to become Board members;
- Make recommendations to the Board on potential Board and Board committee members, whether as a result of vacancies (including any vacancy created by an increase in the size of the Board) or as part of the annual election cycle, taking into consideration the criteria set forth in the "Composition of the Board" section of the Governance Guidelines;
- Review our Governance Guidelines at least annually;
- Establish procedures to exercise oversight of the evaluation of the Board and senior management;
- Lead an annual evaluation of the Board and senior management; and
- Consider any other corporate governance issues that may arise from time to time, and develop appropriate recommendations for the Board.

### Independence

The Board has determined that each member of the Governance Committee meets the independence requirements of NASDAQ.

## Board and Committee Meetings and Attendance

Our Board holds eight regularly scheduled meetings in addition to special meetings scheduled as appropriate. At each regularly scheduled quarterly, in-person Board meeting, a member of each principal Board committee reports on any significant matters addressed by the committee since the last quarterly, in-person Board meeting. In addition, the outside directors have the opportunity to meet without our management or the other directors as part of each regularly scheduled Board meeting. The Lead Independent Director leads these discussions. The Board expects that its members rigorously prepare for, attend and participate in all Board and applicable Board committee meetings.

Our Board met eight times during 2017. Each director nominee who served in 2017 attended at least 75% of all of our Board meetings and committee meetings for committees on which he or she served for the period during which he or she served in 2017.

All directors are encouraged to attend the Annual Meeting. Last year, six of the ten directors serving on our Board at the time of our 2017 Annual Meeting attended that meeting.

## Related Person Transactions

### RELATED-PERSON TRANSACTION POLICY

Our Board has adopted a written related-person transaction policy governing the review and approval of related person transactions that is administered by the ARC Committee. The policy applies to any transaction or series of transactions in which the Company or a consolidated subsidiary is a participant, the amount involved exceeds \$120,000, and a related person under the policy has a direct or indirect material interest. The policy defines a "related person" to include directors, director nominees, executive officers, beneficial owners of more than 5% of PayPal's outstanding common stock and or an immediate family member of any of these persons.

Under the policy, transactions requiring review are referred to the ARC Committee for pre-approval, ratification or other action. Management will provide the ARC Committee with a description of any related-person transaction proposed to be approved or ratified. This description will include the terms of the transaction, the business purpose of the transaction, and the benefits to PayPal and to the relevant related person. In determining whether to approve or ratify a related-person transaction, the ARC Committee will consider the following factors:

- Whether the terms of the transaction are fair to the Company, and at least as favorable to the Company as would apply if the transaction did not involve a related person;
- Whether there are demonstrable business reasons for the Company to enter into the transaction;
- Whether the transaction would impair the independence of an outside director under the Company's director independence standards; and
- Whether the transaction would present an improper conflict of interest for any director or executive officer, taking into account the size of the transaction, the overall financial position of the related person, the direct or indirect nature of the related person's interest in the transaction and the ongoing nature of any proposed relationship, and any other factors the committee deems relevant.



The Company also has practices that address potential conflicts in circumstances where a non-employee director is a control person of an investment fund that desires to make an investment in or acquire a company that may compete with one of the Company's businesses. Under those circumstances, the director is required to notify the Company's CEO and Chief Business Affairs and Legal Officer of the proposed transaction, and the Company's CEO and Chief Business Affairs and Legal Officer then assess the nature and degree to which the investee company is competitive with one of the Company's businesses, as well as the potential overlaps between the Company and the investee company. If the Company's CEO and Chief Business Affairs and Legal Officer determines that the competitive situation and potential overlaps between PayPal and the investee company are acceptable, approval of the transaction by the Company would be conditioned upon the director agreeing to certain limitations (including refraining from joining the board of directors of, serving as an advisor to, or being directly involved in the business of the investee company or conveying any confidential or proprietary information regarding the investee company to the Company or regarding the Company's line of business with which the investee competes to the investee company, abstaining from being the primary decision-maker for the investment fund with respect to the investee company, recusing himself/herself from portions of investee company meetings that cover confidential competitive information reasonably pertinent to the Company's lines of business with which the investee company competes and agreeing to any additional limitations deemed to be reasonably necessary or appropriate by the Company's CEO or Chief Business Affairs and Legal Officer as circumstances change). All transactions by investment funds in which a non-employee director is a control person also remain subject in all respects to the Board's written policy for the review of related person transactions, discussed above.

### TRANSACTIONS WITH RELATED PERSONS

An immediate family member of Gary Marino, our Executive Vice President, Chief Commercial Officer, is employed by the Company. Gary's Marino's son, Steve Marino, is a project manager in credit technology, and received total compensation of approximately \$197,896 in 2017 and standard benefits applicable to similarly situated employees. This related person transaction was approved by the ARC Committee.

The charter of the ARC Committee requires it to review and approve all related person transactions that are required to be disclosed under Item 404(a) of Regulation S-K. There were no transactions required to be reported in this Proxy Statement since the beginning of fiscal 2017 where our written related-person transaction policy did not require review, approval or ratification or where this policy was not followed.

### Communication with the Board

Stockholders are invited to contact the Board or any individual director by writing to the Corporate Secretary at our principal executive offices: PayPal Holdings, Inc., 2211 North First Avenue, San Jose, California 95131, with a request to forward the communication to the intended recipients. In general, any stockholder communication delivered to the Company for forwarding to the Board or specified Board members will be forwarded in accordance with the stockholder's instructions. However, the Company reserves the right not to forward to Board members any abusive, threatening or otherwise inappropriate materials.

## Our Executive Officers

Our executive officers are elected annually by the Board and serve at the discretion of the Board. Set forth below is information regarding our executive officers as of April 12, 2018.

Name	Age	Position	Biography
Daniel H. Schulman	60	President and Chief Executive Officer	Mr. Schulman's biography is set forth on page 13 under the heading "Proposal 1 — Election of Directors — Director Nominees."
Jonathan Auerbach	55	Executive Vice President, Chief Strategy, Growth and Data Officer	<p>Mr. Auerbach has served PayPal as Executive Vice President, Chief Strategy, Growth and Data Officer since January 2018. From September 2016 to January 2018, he served as Executive Vice President, Chief Strategy and Growth Officer. From July 2015 to September 2016, he served as Senior Vice President, Chief Strategy and Growth Officer.</p> <p>Mr. Auerbach was the CEO of Group Digital Life at Singapore Telecommunication Limited (Singtel), a telecommunications company, from September 2014 to May 2015, where he led the company's global portfolio of digital businesses as well as its venture fund. From 1987 through 2014, Mr. Auerbach was a management consultant and held a variety of executive roles with McKinsey &amp; Company, a global management consulting firm.</p>
Aaron Karczmer	46	Executive Vice President, Chief Risk, Compliance and Security Officer	<p>Mr. Karczmer has served PayPal as Executive Vice President, Chief Risk, Compliance and Security Officer since April 2017. From September 2016 to March 2017, he served as Senior Vice President, Chief Compliance and Ethics Officer. From May 2016 to September 2016, he served as Senior Vice President, Chief Compliance Officer.</p> <p>From 2013 to April 2016, he served as Senior Vice President, Deputy Chief Compliance Office and Head of Global Financial Crime Compliance of American Express, a financial services company. From May 2011 to January 2013, he served as Vice President, Principal Compliance Leader, Enterprise Growth and Enterprise Compliance Risk Management of American Express. From September 2007 to May 2011, he served as Vice President, Financial Intelligence Unit — AML Enterprise Surveillance, Investigations &amp; Technology of American Express.</p>
Gary J. Marino	61	Executive Vice President, Chief Commercial Officer	<p>Mr. Marino has served PayPal as Executive Vice President, Chief Commercial Officer since September 2016. From July 2015 to September 2016, he served as Senior Vice President, Global Credit and the Americas.</p> <p>Mr. Marino co-founded Bill Me Later, Inc. in 2001 and served as its Chief Executive Officer from 2001 through November 2009, when eBay Inc. acquired Bill Me Later, Inc.</p>
A. Louise Pentland	46	Executive Vice President, Chief Business Affairs and Legal Officer	<p>Ms. Pentland has served PayPal as Executive Vice President, Chief Business Affairs and Legal Officer since September 2016. From September 2015 to September 2016, she served as Senior Vice President, Chief Legal Officer and Secretary. From July 2015 to September 2015, she served as Senior Vice President, General Counsel and Secretary.</p> <p>Ms. Pentland was previously the Executive Vice President and Chief Legal Officer at Nokia Corporation, a multinational communications and information technology company, from July 2008 to July 2014. Ms. Pentland also serves on the Board of Directors of Hitachi Ltd.</p>

Name	Age	Position	Biography
John D. Rainey	47	Chief Financial Officer and Executive Vice President, Global Customer Operations	<p>Mr. Rainey has served PayPal as Chief Financial Officer and Executive Vice President, Global Customer Operations since January 2018. From September 2016 to January 2018, he served as Executive Vice President, Chief Financial Officer. From August 2015 to September 2016, he served as Senior Vice President, Chief Financial Officer.</p> <p>From April 2012 to July 2015, Mr. Rainey was Executive Vice President and Chief Financial Officer of United Continental Holdings, Inc., an airline holding company. Mr. Rainey also served as Chief Financial Officer and Executive Vice President at United Airlines, Inc., an airline company, from April 2012 to August 2015. From October 2010 to April 2012, Mr. Rainey was Senior Vice President of Financial Planning and Analysis at United Continental Holdings, Inc. Mr. Rainey also serves on the Board of Directors of Nasdaq, Inc.</p>
William J. Ready	38	Executive Vice President, Chief Operating Officer	<p>Mr. Ready has served PayPal as Executive Vice President, Chief Operating Officer since September 2016. From July 2015 to September 2016, he served as Senior Vice President, Global Head Product &amp; Engineering of PayPal. Prior to the Separation, Mr. Ready was the head of PayPal's Braintree operations from the time of its acquisition in December 2013.</p> <p>Mr. Ready was the Chief Executive Officer of Braintree, an online payments provider, from October 2011 until its acquisition by PayPal, Inc., in December 2013. From July 2011 to October 2011, Mr. Ready was an executive in residence at Accel Partners, a leading Silicon Valley venture capital and growth equity firm. Mr. Ready was the President of iPay Technologies, Inc., a payments services provider, from 2008 to 2011. Mr. Ready also serves on the Board of Directors of Automatic Data Processing, Inc.</p>

# Stock Ownership Information

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to us with respect to beneficial ownership of our common stock as of April 3, 2018 by (1) each stockholder known to us to be the beneficial owner of more than 5% of our common stock, (2) each director and nominee for director, (3) each executive officer named in the 2017 Summary Compensation Table below, and (4) all executive officers and directors as a group. Unless otherwise indicated below, the address for each of our executive officers and directors is c/o PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131.

Name of Beneficial Owner	Shares Beneficially Owned <sup>(1)</sup>	
	Number	Percent
FMR LLC <sup>2</sup>	82,888,592	7.0%
The Vanguard Group <sup>3</sup>	80,842,746	6.8%
BlackRock, Inc. <sup>4</sup>	69,404,765	5.9%
Daniel H. Schulman <sup>5</sup>	630,150	*
John D. Rainey <sup>6</sup>	116,948	*
Gary J. Marino <sup>7</sup>	97,598	*
A. Louise Pentland <sup>8</sup>	88,944	*
William J. Ready <sup>9</sup>	203,916	*
Rodney C. Adkins	10,149	*
Wences Casares <sup>10</sup>	14,347	*
Jonathan Christodoro	15,927	*
John J. Donahoe <sup>11</sup>	325,467	*
David W. Dorman <sup>12</sup>	33,391	*
Belinda J. Johnson <sup>13</sup>	7,435	*
Gail J. McGovern <sup>14</sup>	12,647	*
David M. Moffett	66,320	*
Ann M. Sarnoff <sup>15</sup>	6,645	*
Frank D. Yeary <sup>16</sup>	17,389	*
All directors and executive officers as a group (17 persons) <sup>17</sup>	1,856,670	0.2%

\* Less than one percent

<sup>1</sup> This table is based upon information supplied by officers, directors, and principal stockholders and any Schedules 13D and 13G filed with the SEC. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of April 3, 2018, and restricted stock units ("RSUs") that are scheduled to vest within 60 days of April 3, 2018 are deemed to be outstanding for the purpose of computing the percentage ownership of the person holding those options or RSUs, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The percentage of beneficial ownership is based on 1,187,180,992 shares of common stock outstanding as of April 3, 2018.

<sup>2</sup> FMR LLC has beneficial ownership of an aggregate of 82,888,592 shares of the Company's common stock. FMR LLC has sole voting power of 12,183,260 shares of the Company's common stock and sole dispositive power of 82,888,592 shares of the Company's common stock. The address for FMR LLC is 245 Summer Street, Boston, Massachusetts 02210.

<sup>3</sup> The Vanguard Group and its affiliates and subsidiaries have beneficial ownership of an aggregate of 80,842,746 shares of the Company's common stock. The Vanguard Group has sole voting power of 1,618,860 shares of the Company's common stock, shared voting power of 244,955 shares of the Company's common stock, sole dispositive power of 79,019,404 shares of the Company's common stock, and shared dispositive power of 1,823,342 shares of the Company's common stock. The address for The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.

<sup>4</sup> BlackRock, Inc. and its affiliates and subsidiaries have beneficial ownership of an aggregate of 69,404,765 shares of the Company's common stock. BlackRock, Inc. has sole voting power of 60,178,544 shares of the Company's common stock, and sole dispositive power of 69,404,765 shares of the Company's common stock. The address for BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055.

<sup>5</sup> Mr. Schulman is our President and CEO. Includes 254,853 shares Mr. Schulman has the right to acquire pursuant to outstanding options exercisable within 60 days of April 3, 2018.

<sup>6</sup> Mr. Rainey is our Chief Financial Officer and Executive Vice President, Global Customer Operations. Includes 9,103 shares Mr. Rainey has the right to acquire pursuant to outstanding options exercisable within 60 days of April 3, 2018.

<sup>7</sup> Mr. Marino is our Executive Vice President, Chief Commercial Officer. Includes 12,823 shares Mr. Marino has the right to acquire pursuant to outstanding options exercisable within 60 days of April 3, 2018.

<sup>8</sup> Ms. Pentland is our Executive Vice President, Chief Business Affairs and Legal Officer. Includes 3,056 shares Ms. Pentland has the right to acquire pursuant to outstanding options exercisable within 60 days of April 3, 2018, and 33,278 RSUs scheduled to vest within 60 days of April 3, 2018.

<sup>9</sup> Mr. Ready is our Executive Vice President, Chief Operating Officer. Includes 25,551 shares Mr. Ready has the right to acquire pursuant to outstanding options exercisable within 60 days of April 3, 2018 and 24,258 RSUs scheduled to vest within 60 days of April 3, 2018.

<sup>10</sup> The address for Mr. Casares is Xapo Inc., 364 University Avenue, Palo Alto, California 94301.

<sup>11</sup> Includes 198,513 shares Mr. Donahoe has the right to acquire pursuant to outstanding options exercisable within 60 days of April 3, 2018. The address for Mr. Donahoe is ServiceNow, Inc., 2225 Lawson Lane, Santa Clara, California 95054.

<sup>12</sup> The address for Mr. Dorman is Knoll Ventures, Tower Place 200, Suite 1000, 3348 Peachtree Road, NE, Atlanta, Georgia 30326.

<sup>13</sup> The address for Ms. Johnson is Airbnb, Inc., 888 Brannan Street, San Francisco, California 94103.

<sup>14</sup> The address for Ms. McGovern is American Red Cross, 430 17th Street, NW, Washington, DC 20006.

<sup>15</sup> The address for Ms. Sarnoff is BBC Worldwide Americas, 1120 Avenue of the Americas, 5<sup>th</sup> Floor, New York, New York 10036.

<sup>16</sup> The address for Mr. Yeary is CamberView Partners, LLC, 650 California Street, 31<sup>st</sup> Floor, San Francisco, California 94108.

<sup>17</sup> Includes 566,720 shares subject to options exercisable within 60 days of April 3, 2018, and 94,889 RSUs scheduled to vest within 60 days of April 3, 2018.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers, and holders of more than 10% of our common stock to file reports regarding their ownership and changes in ownership of our securities with the SEC, and to furnish us with copies of all Section 16(a) reports that they file.

We believe that during the fiscal year ended December 31, 2017, our directors, executive officers, and greater than 10% stockholders complied with all applicable Section 16(a) filing requirements.

In making these statements, we have relied upon a review of the copies of Section 16(a) reports furnished to us and the written representations of our directors, executive officers, and greater than 10% stockholders.

## Proposal 2 — Advisory Vote to Approve Named Executive Officer Compensation

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In accordance with the requirements of Section 14A of the Exchange Act, we are asking our stockholders to vote on an advisory basis to approve the compensation paid to our NEOs (“say-on-pay”), as described in the Compensation Discussion and Analysis and the compensation table sections of this proxy statement.

As discussed in the Compensation Discussion and Analysis, the Compensation Committee is committed to an executive compensation program that creates transparent and simple programs that appropriately incentivize our executives, align with stockholder interests and external expectations, and enable us to effectively compete for and win top talent and to build the strongest possible leadership team for PayPal. The Compensation Committee believes that the goals of our executive compensation program are appropriate and that the program is properly structured to achieve those goals. In deciding how to vote on this proposal, the Board encourages you to read the Compensation Discussion and Analysis and the compensation table sections of this proxy statement.

The Board recommends that stockholders vote “FOR” the following resolution:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company’s Proxy Statement for the 2018 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2017 Summary Compensation Table, and the other related tables and disclosures.”

This “say-on-pay” vote is advisory, and therefore not binding on the Company, the Board, or the Compensation Committee. However, the Board and the Compensation Committee value the opinions of our stockholders and will take into account the outcome of this vote in considering future compensation arrangements. We hold our advisory “say-on-pay” vote every year and expect that the next “say-on-pay” vote will occur at PayPal’s 2019 annual meeting of stockholders.

**The Board Recommends a Vote [FOR](#) Proposal 2.**



## Compensation Discussion and Analysis

Dear PayPal Stockholder:

2017 was an extraordinary year for PayPal. We continued to pursue our mission and vision as part of the multi-year strategic plan that dramatically expanded our customer value proposition, transformed our business model to support customer choice, and strengthened strategic partnerships across the ecosystem. In 2017, we succeeded in growing our core through expanding our global capabilities, in expanding our value proposition for customers by focusing on trust and simplicity, and in strengthening strategic partnerships by building new strategic partnerships to provide better experiences for our customers and seeking new areas of growth through new international markets around the world.

Our executive compensation program takes into consideration the unique nature of the financial technology (“FinTech”) competitive landscape, and is designed to create transparent and simple programs that appropriately incentivize our executives, align with stockholder interests and external expectations, and enable us to effectively compete for and win top talent and to build the strongest possible leadership team for PayPal. The discussion that follows provides an overview of our compensation program for our named executive officers and their compensation for 2017. We encourage you to review this discussion and analysis of our program carefully, and we hope you agree that our executive compensation program supports PayPal’s growth strategy and is well aligned with creating long-term stockholder value.

### **The Compensation Committee of the Board of Directors**

David W. Dorman (Chairman)  
Wences Casares  
Jonathan Christodoro  
Gail J. McGovern

## Introduction

We completed our second year as an independent company in 2017, continuing our transformative journey while delivering strong results. For 2017, the Committee approved an executive compensation program based on our “pay for performance” philosophy that is designed to align our executive officers’ compensation with the key drivers of profitable short-term and long-term growth and the goals of properly incentivizing and rewarding our executives for performance that exceeds expectations, providing transparency for both our executives and our stockholders, and positioning us competitively to enable us to attract and retain our executives.

**This Compensation Discussion and Analysis (“CD&A”) describes the compensation for each of PayPal’s named executive officers (“NEOs”). For 2017, our NEOs were:**

Daniel H. Schulman	President and Chief Executive Officer (our “CEO”)
John D. Rainey	Chief Financial Officer and Executive Vice President, Global Customer Operations
Gary J. Marino	Executive Vice President, Chief Commercial Officer
A. Louise Pentland	Executive Vice President, Chief Business Affairs and Legal Officer
William J. Ready	Executive Vice President, Chief Operating Officer



## Executive Summary—Overview of Executive Compensation Program

The following is a brief overview of the primary compensation elements for our NEOs in 2017.

### PRIMARY COMPENSATION ELEMENTS FOR NEOs IN 2017

Total Direct Compensation				
	Salary	Annual Incentive Award	Performance-Based Restricted Stock Units ("PBRsUs")	Restricted Stock Units ("RSUs")
When is it set?	Set at hire; reviewed annually	Granted annually and paid or settled in February following conclusion of performance period.	Granted annually in March	
Form of payment	Cash	Cash and Equity	Equity	
Timeframe of targeted performance	Short-term (annual) emphasis		Long-term (multi-year) emphasis	
Performance period	Ongoing	One year	Three year performance period with "cliff" vesting of shares earned, if any, following end of performance period	Three year service-based vesting, on annual ratable basis
2017 performance measures	N/A	Company Performance – Revenue and Non-GAAP Operating Margin, with Net New Actives adjustment  Individual Performance	FX-Neutral Revenue Compound Annual Growth Rate ("CAGR") and Free Cash Flow CAGR	Service-based vesting; ultimate value varies based on stock price performance
Objective	Compensates for expected day-to-day performance  Rewards individuals' current contributions  Reflects scope of roles and responsibilities  Attracts highly capable leaders in an extremely competitive talent market	Compensates for successful annual performance  Motivates achievement of short-term performance goals designed to enhance value of Company  Attracts highly capable leaders in an extremely competitive talent market	Compensates for successful achievement of three year performance goals designed to enhance long-term value  Intended to satisfy long-term retention objectives  Attracts highly capable leaders in an extremely competitive talent market	Compensates for the creation of long-term value  Recognizes recent performance and potential future contributions  Intended to satisfy long-term retention objectives  Attracts highly capable leaders in an extremely competitive talent market

The Committee believes that long-term equity incentives should comprise the majority of the target total direct compensation opportunity for our NEOs. Other than the annual long-term incentive awards, the Committee may also grant other equity awards from time to time in recognition of an NEO's promotion or special achievement. In 2017, a special equity grant of RSUs was made to Mr. Ready with a grant date value equal to \$16 million (the "Promotion RSU Award") in recognition of his promotion to Chief Operating Officer in late 2016. The vesting schedule of this Promotion RSU Award is intended to enhance our long-term retention objective, due to its back-loaded vesting schedule, as 50% of the Promotion RSU Award will vest on the second anniversary of the date of grant and 25% will vest on each of the third and fourth anniversaries of the date of grant, subject to Mr. Ready's continued service through the applicable vesting date. The Promotion RSU Award was granted after considering the input of the Committee's independent compensation consultant, the level deemed necessary to retain Mr. Ready's continued service to the Company in this key operational role over the four-year vesting period given the highly competitive labor market in the Bay Area, Mr. Ready's expanded scope of responsibilities, and his performance in that role since his promotion.

### KEY CONSIDERATIONS IN SETTING PAY

#### Objectives of Executive Compensation Program

In 2017, the Committee prioritized the following compensation philosophy and goals:

- Simplicity, Transparency and Clarity of our Program – enable executives to directly link Company and individual performance to their pay, and enable stockholders to directly link returns on their investment to Company performance;
- One Team – maintain unified goals and objectives for the entire executive leadership team to drive operational decisions and Company performance;
- Winning the War for Talent – recognize the unique FinTech space in which we compete and prioritize nimble and aggressive compensation strategies to attract and retain key talent; and
- Individual Performance – ensure compensation is commensurate with results, both on the upside and downside, and that leaders are held accountable for their performance.

### Investor Feedback and 2017 Say-On-Pay Advisory Vote on Named Executive Officer Compensation

At our 2017 annual meeting of stockholders (the "2017 Annual Meeting"), we received more than 96% support of the votes cast on our say-on-pay proposal. Following our 2017 Annual Meeting, we engaged in proactive outreach efforts with major institutional investors holding approximately 55% of our common stock focused on various corporate governance and executive compensation-related issues.

After considering our 2017 say-on-pay voting results as well as the positive feedback received during our stockholder engagement efforts, the Committee determined that it was appropriate to maintain the core design of our 2017 executive compensation program and did not make any changes to our executive compensation program in response to those voting results or stockholder engagement feedback. The Committee will continue to consider future say-on-pay votes and investor feedback when considering and making decisions relating to our executive compensation program, policies, and practices.

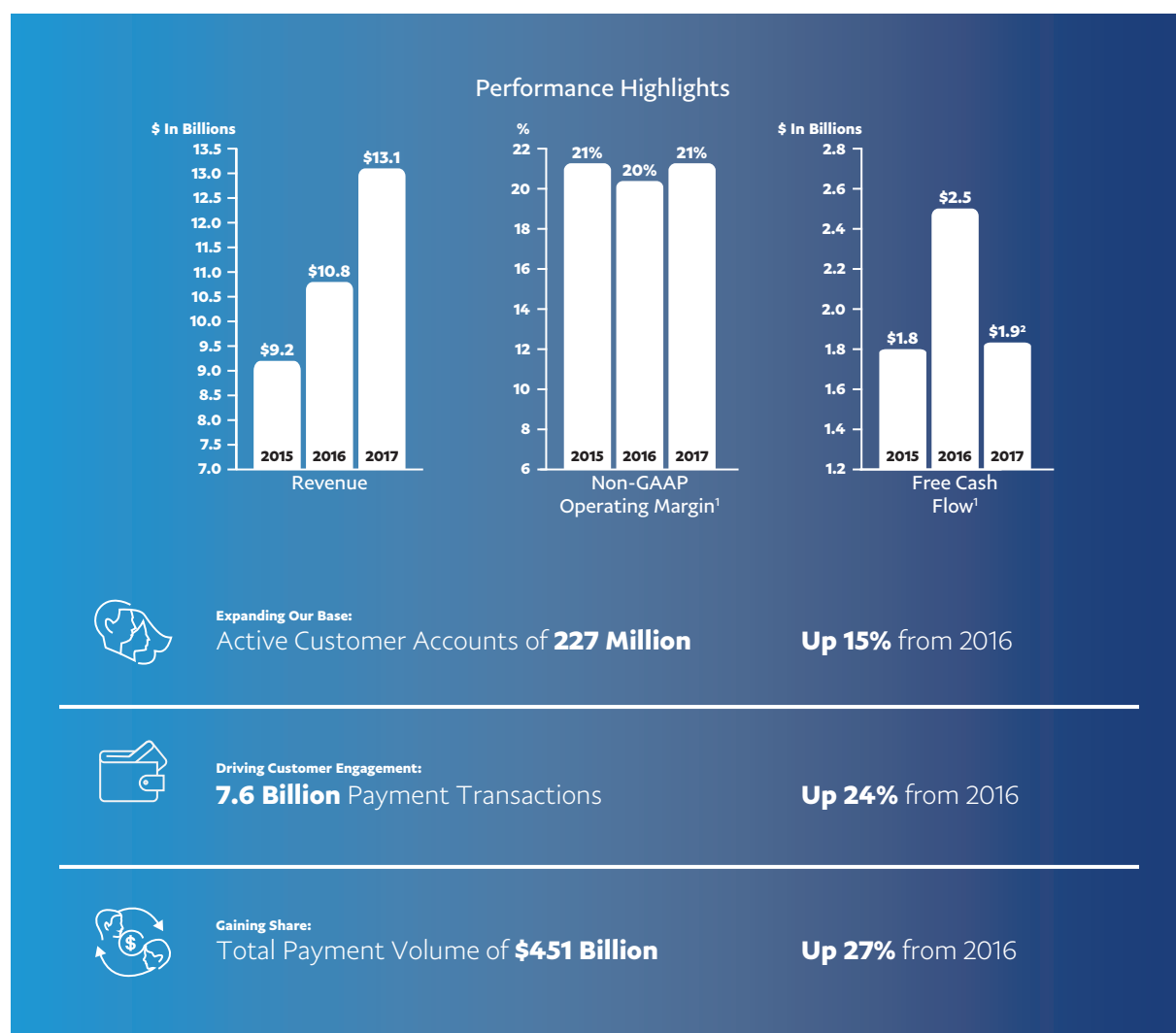
### Pay for Performance

Our key executive compensation guiding principle continues to be closely aligning the compensation of our executives with the creation of long-term value for our stockholders by tying a significant portion of their target total direct compensation opportunity to the Company's performance.

### 2017 Performance Highlights

In 2017, led by significantly higher revenue growth and improved operating performance, our business delivered greater profitability and higher earnings per share on a reported and adjusted basis. We continued to focus on the long-term growth of our business by executing a broad transformation of our culture and business model to support customer choice and strengthening strategic partnerships across the ecosystem.

The following summarizes our key financial and operational performance results for 2017. We use certain of these key metrics as the performance measures in our incentive compensation program and believe these measures help to align the interests of our executives with those of our stockholders.



<sup>1</sup> Non-GAAP operating margin and free cash flow are two of the performance metrics used in our incentive compensation program. Non-GAAP operating margin and free cash flow are not financial measures prepared in accordance with generally accepted accounting principles ("GAAP"). For information on how we compute these non-GAAP financial measures and a reconciliation to the most directly comparable financial measures prepared in accordance with GAAP, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section beginning on page 47 of our 2017 Annual Report on Form 10-K filed with the SEC on February 7, 2018.

<sup>2</sup> Free Cash Flow for 2017 reflects the impact of held for sale accounting treatment in connection with the potential sale of the Company's U.S. consumer credit receivables portfolio, which reduced free cash flow for 2017 by approximately \$1.3 billion. Normalizing for this impact, free cash flow for 2017 would have been approximately \$3.16 billion.

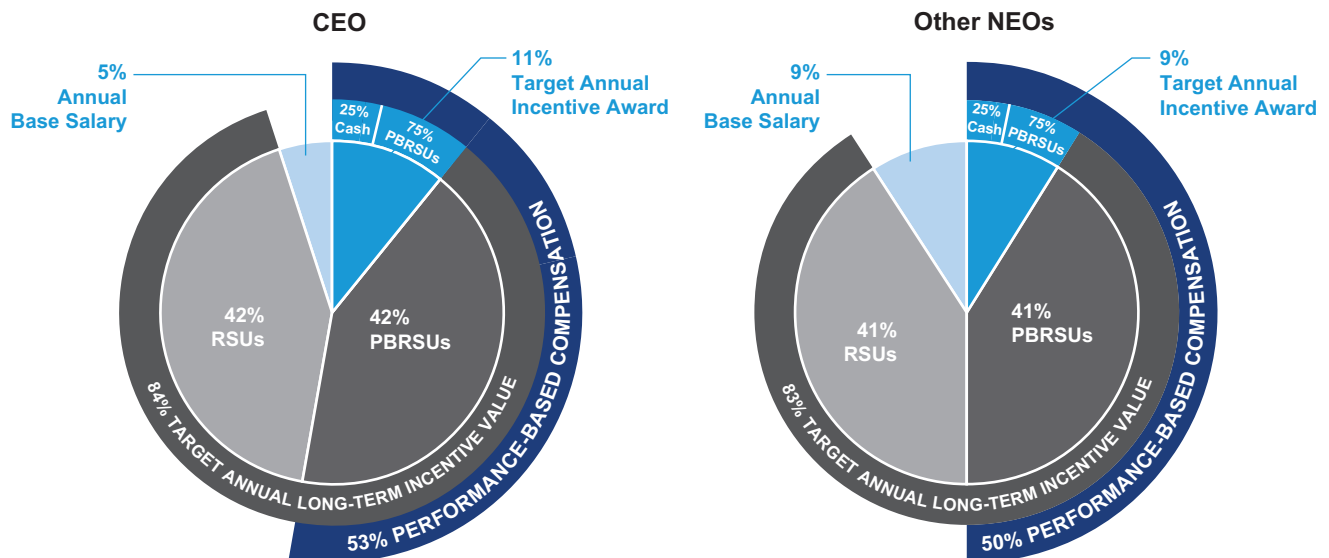
In addition to our strong financial and operational results, we also achieved the following in 2017:

- Our total stockholder return for 2017 (measured from December 30, 2016 to December 29, 2017) was 87%.
- We signed a new long-term strategic partnership with Synchrony Financial that extends our existing co-branded consumer credit card program agreement. Under this partnership, Synchrony will also become the exclusive issuer of the PayPal credit online consumer financing program in the U.S. for the next ten years and acquire the assets of PayPal's U.S. consumer credit receivables portfolio.
- As part of our vision of being a true Customer Champion and supporting customer choice, we continued to forge a series of strategic partnerships with networks, financial institutions, technology companies, and mobile carriers, and entered into 16 major strategic partnerships in 2017.
- Continued strength in mobile, as mobile represented approximately 34% of overall payment volume on our platform for the full year 2017 with total mobile payment volume growing 52% to approximately \$155 billion for the year.

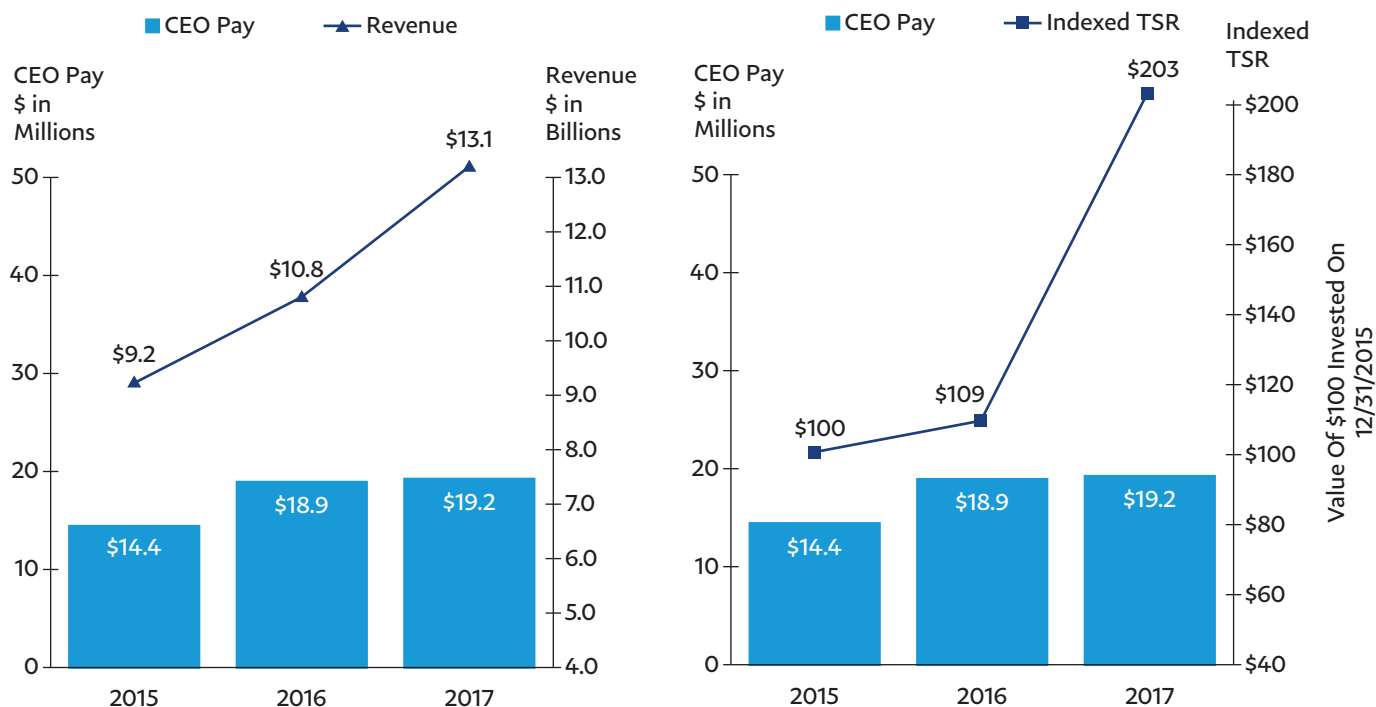
### Linking 2017 NEO Compensation to Performance

We believe that our executive compensation program was effective at incentivizing results in 2017 by appropriately aligning pay and performance. The following charts show the 2017 Target Total Direct Compensation mix for our CEO, Mr. Schulman, and the average Target Total Direct Compensation mix for our other NEOs. Target Total Direct Compensation is the sum of (i) 2017 base salary, (ii) target 2017 annual incentive award (based on the grant date fair value for the portion of the award delivered as PBRsUs) and (iii) target annual long-term incentive award (based on grant date fair values).

**Target Total Direct Compensation Mix**



The following chart demonstrates the alignment between Revenue, a key metric of our financial performance, and our Indexed TSR, to our CEO Pay (as shown in the “2017 Summary Compensation Table”) during 2017, 2016 and 2015. Indexed TSR is defined as the total shareholder return on our common stock during the period from December 31, 2015 through December 29, 2017, assuming \$100 was invested on December 31, 2015.



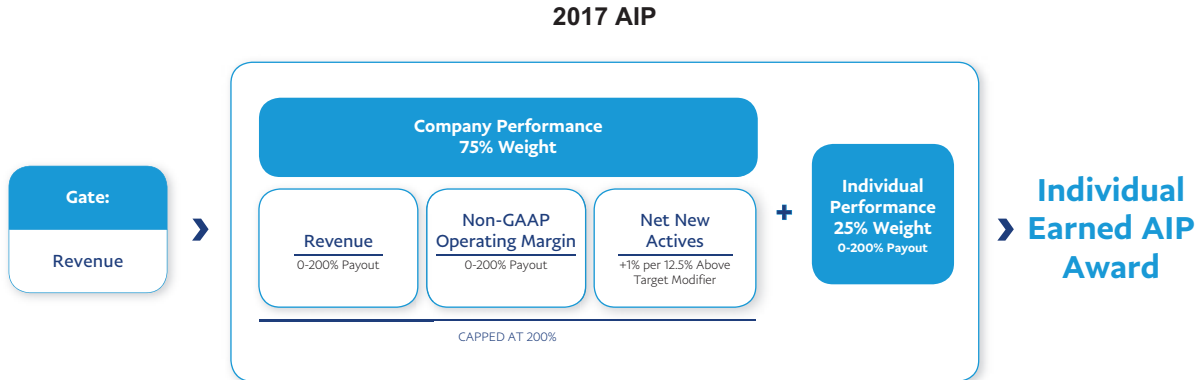
#### 2017 Incentive Pay Outcomes Are Aligned with Performance—Annual Incentive Award Program

Our NEOs earned annual incentive awards (bonuses) under the 2017 annual incentive award program (the “2017 AIP”), which is our annual bonus program for eligible employees adopted pursuant to the PayPal Employee Incentive Plan.

Under the 2017 AIP, Revenue served as the “gate” or the funding performance target (the “2017 AIP Funding Threshold”), and if achieved, payouts were determined based on a Company performance component and an individual performance component, weighted 75% and 25%, respectively. Assuming the 2017 AIP Funding Threshold was achieved, Revenue and Non-GAAP Operating Margin served as equally weighted Company performance measures and represented the primary determinants of the payout with respect to the financial component, with “Net New Actives” (as defined below in “Compensation Framework – Incentive (Performance-Based) Compensation for 2017 – Annual Incentive Award Program – Company Performance Measures”) serving as a financial performance measure modifier.

In addition, the Committee approved a revised annual incentive award program design by granting the Company performance component of the 2017 AIP in the form of PBRsUs, with a one-year performance period (calendar year 2017), pursuant to the terms of the PayPal Employee Incentive Plan and the 2015 PayPal Holdings, Inc. Equity Incentive Award Plan, as amended and restated. The awards were granted in mid-February 2017 and vested on the one-year anniversary of the grant date, based on Company performance and continued employment through the vesting date. The Committee believes that delivering the Company performance portion of the 2017 AIP in equity further reinforces and strengthens the pay for performance design of our executive compensation program, and provides a further linkage between our NEOs and stockholders, without increasing the target short-term incentive of our NEOs.

The 2017 AIP weighted the Company performance component at 75% and the individual performance component at 25% for our NEOs.



In early 2018, the Committee approved funding 2017 annual incentives under the 2017 AIP based upon our exceeding the 2017 AIP Funding Threshold. The Committee then approved specific awards of these annual incentives based upon Company performance with regard to Revenue and Non-GAAP Operating Margin, “Net New Actives” performance and each executive’s individual performance, as further discussed under “Compensation Framework – Incentive (Performance-Based) Compensation for 2017 – Annual Incentive Award Program.” Based on these results, the Committee determined that the achievement level of the Company performance component under the 2017 AIP was 185% of target.

The Committee set the 2017 Revenue and Non-GAAP Operating Margin target levels in consideration of anticipated performance and within the guidance range provided to the market in early 2017. We experienced significant growth during the year and, accordingly, the 2017 AIP payments were higher than the 2016 annual incentive payments, primarily due to our strong financial and operational performance.

#### Key Compensation Policies and Practices

We are committed to maintaining strong governance standards with respect to our executive compensation program, policies, and practices. Consistent with this focus, we maintain the following policies and practices that we believe demonstrate our commitment to executive compensation best practices.

#### What We Do

Pay for Performance	✓	A substantial percentage of our NEOs’ 2017 Target Total Direct Compensation was performance-based and tied to pre-established performance goals aligned with our short-term and long-term objectives.
Adherence to Rigorous Goals	✓	We use objective performance-based company goals in our annual and long-term incentive plans that we believe are rigorous and designed to incentivize and motivate NEO performance.
Clawback Policy	✓	Our NEOs are subject to a clawback policy, which permits the Committee to require forfeiture or reimbursement of incentive compensation, including any cash incentive award, equity award, or equity-based award paid or awarded to the NEO during the period in which he or she is subject to the policy, if (i) an action or omission by the NEO constitutes a material violation of our Code of Business Conduct; (ii) an action or omission by the NEO results in material financial or reputational harm to the Company; or (iii) a material restatement of all or a portion of our financial statements is the result of a supervisory or other failure by the NEO.
Meaningful Stock Ownership Guidelines	✓	Our stock ownership guidelines are designed to align the long-term interests of our NEOs and non-employee directors with those of our stockholders and discourage excessive risk-taking. Our guidelines require stock ownership levels as a value of our common stock equal to a multiple of base salary (6x for CEO and 3x for EVPs) or annual retainer (5x for non-employee directors), and include stock retention requirements for executive officers until the required ownership levels are reached.
Prohibition of Hedging and Pledging Transactions	✓	Our insider trading policy prohibits members of our Board and NEOs from (i) entering into any hedging or monetization transactions relating to our securities or otherwise trading in any instrument relating to the future price of our securities or (ii) pledging our common stock as collateral for any loans.

### What We Do

Independent Compensation Consultant	✓	The Committee engages its own independent compensation consultant to advise on executive and non-employee director compensation matters.
Annual Risk Assessment	✓	Based on our annual risk assessment, we have concluded that our compensation program does not present any risk that is reasonably likely to have a material adverse effect on PayPal.
Annual Comparator Peer Group Review	✓	The Committee, with the assistance of its compensation consultant, reviews the composition of our comparator peer group annually and makes adjustments to the composition of the peer group as it deems appropriate.
Annual Say-on-Pay Vote	✓	We conduct an annual advisory (non-binding) vote on the compensation of the NEOs (a “say-on-pay” vote). At our 2017 Annual Meeting, more than 96% of the votes cast on the say-on-pay proposal were voted in support of the 2016 compensation of the NEOs.
Investor Engagement	✓	In addition to the annual say-on-pay vote, we are committed to ongoing engagement with our investors on executive compensation and governance matters. These engagement efforts take place through teleconferences, in-person meetings and correspondence with our investors.

### What We Don't Do

No Excise Tax Gross-Ups on Severance Payments	X	We do <u>not</u> provide our NEOs with any gross-ups or other payment or reimbursement of excise taxes on severance or other payments in connection with a change in control of PayPal.
No “Single-Trigger” CIC Payments and Acceleration of Equity Awards	X	We do <u>not</u> make “single-trigger” change-in-control payments or maintain any plans that require single-trigger change-in-control acceleration of equity awards to our NEOs upon a change in control of PayPal.
No Tax Gross-Ups on Perquisites	X	We do <u>not</u> provide our NEOs with tax gross-ups on perquisites, other than in limited circumstances for business-related relocations and international business travel-related benefits that are under our control, at our direction and deemed to benefit our business operations.
No Discounting of Stock Options or Repricing of Underwater Options	X	We expressly <u>prohibit</u> the discounting of stock options and the repricing of underwater stock options without stockholder approval under our equity compensation plan.
No Guaranteed Bonuses	X	Our annual incentive plan is performance-based and our NEOs are <u>not</u> guaranteed any minimum levels of payment.

## Compensation Framework

### INCENTIVE (PERFORMANCE-BASED) COMPENSATION FOR 2017

When deciding the target amount and form of each element of compensation for each of our NEOs, the Committee took into account the size and complexity of the NEO's position and business unit or function, as well as the following factors (the “Incentive Compensation Factors”):

- performance against financial performance measures;
- defining business unit or function strategy and roadmaps, and executing against them;
- organizational development, including hiring, development and retention for each business unit or function;
- leadership;
- improving and supporting innovation and execution for the business unit or function;
- negotiating, closing and integrating or implementing acquisitions and strategic partnerships; and
- achievement of strategic and operational objectives, and executing against budgets.

No specific weightings were assigned to these Incentive Compensation Factors; instead, individual performance was evaluated based on a holistic and subjective assessment of each individual NEO's performance against these factors.

#### Annual Incentive Award Program

The 2017 AIP provides our NEOs with the opportunity to earn annual incentive compensation based on Company performance and each executive's individual performance.

The Committee believes that it is important to have our executives' annual incentives tied primarily to our overall performance, with individual compensation differentiated based on individual performance.

### Target Incentive Amounts

The 2017 annual incentive target (expressed as a percentage of base salary) for each NEO was determined (i) with reference to the Committee's assessment of data from public filings of our peer group companies and general industry data for comparable technology companies that were included in proprietary third-party compensation surveys (the specific identity of respondents of which are not provided to the Committee or the Company), (ii) based on each NEO's position within the Company and (iii) taking into account the Incentive Compensation Factors. For 2017, the Committee did not adjust the target annual incentive opportunity percentages from the percentages set in 2016 for each of the NEOs.

The following table sets forth the 2017 AIP target annual cash incentive opportunities (the "Target Incentive Amount") for each of our NEOs, expressed as a percentage of 2017 base salary and in dollars.

Name	Annual Incentive Target as Percentage of Base Salary	Target Incentive Amount (\$)
Daniel H. Schulman	200%	2,000,000
John D. Rainey	100%	650,000
Gary J. Marino	100%	550,000
A. Louise Pentland	100%	625,000
William J. Ready	100%	650,000

75% of the Target Incentive Amount for each NEO was allocated to Company performance and the remaining 25% of the Target Incentive Amount was allocated to individual performance.

For the 2017 AIP, the Committee approved granting the Company performance portion of the 2017 AIP in the form of PBRsUs, with a one-year performance period (calendar year 2017). The PBRsUs were granted on February 15, 2017. The following table sets forth the 2017 AIP Target Incentive Amount for each of our NEOs in which the Company performance portion is expressed in target number of PBRsUs granted and the individual performance portion is expressed in target cash amount.

Name	Target Incentive Amount (\$)	Target PBRsUs <sup>1</sup> (75% of Target Incentive Amount) (In Shares)	Target Cash (25% of Target Incentive Amount) (\$)
Daniel H. Schulman	2,000,000	36,697	500,000
John D. Rainey	650,000	11,927	162,500
Gary J. Marino	550,000	10,092	137,500
A. Louise Pentland	625,000	11,468	156,250
William J. Ready	650,000	11,927	162,500

<sup>1</sup>The target number of PBRsUs was determined by dividing the USD value of the target award allocated to the Company performance portion by the average of the closing prices of the Company common stock for a period of 30 consecutive trading days prior to the grant date (the "Average Company Closing Price"). The PBRsUs were granted on February 15, 2017.

### Company Performance Measures

In early 2017, the Committee set the Company performance measures under the 2017 AIP for our NEOs to create a strong link between Company performance and incentive payouts, as described in the following table:

Measure	Definition	Purpose
Revenue (50% Weighting)	Revenue, as reported in our Annual Report on our Form 10-K.	<p>The Committee believes that a Revenue threshold (or “gate”) should be included to ensure that no cash incentive is paid if future income may be impaired by insufficient revenue growth.</p> <p>In 2017, the Committee also included Revenue as one of the equally-weighted Company performance measures to establish the payment with respect to the Company performance component because the Committee believes that top-line growth is an important factor in stockholder value creation. Revenue is also a key financial metric that the Company uses internally to measure its ongoing financial performance.</p>
Non-GAAP Operating Margin (50% Weighting)	“Non-GAAP Operating Margin,” as reported in our Annual Report on our Form 10-K.	<p>The Committee believes that Non-GAAP Operating Margin is a key measure of our short-term and intermediate-term performance because it measures profitability and reflects the degree of Revenue growth and expense management discipline of the Company and is a widely followed measure of core financial performance and business activities for our industry. Non-GAAP Operating Margin is also a key financial metric that the Company uses internally to measure its ongoing financial performance.</p>
Net New Actives (“NNAs”) (“Modifier”)	Measures the net change in the number of organic active customer accounts compared to the prior period, in this case 2017 compared to 2016. NNAs excludes the impact of any mergers and acquisitions.	<p>The Committee believes that measuring NNAs reinforces the critical importance of growing our customer base to build for the future.</p>

The Committee determined that the 2017 AIP should contain a minimum Revenue threshold (the “2017 AIP Funding Threshold”) to permit the funding of the plan and minimum Revenue and Non-GAAP Operating Margin thresholds to govern the performance necessary to trigger any payments. If the 2017 AIP Funding Threshold was met, Revenue and Non-GAAP Operating Margin were applied as equally weighted Company performance measures as the primary determinants of the Company performance portion of the payment for the 2017 AIP, with the Company performance payment level ranging from a minimum level of 25% to a maximum level of 200%. The NNAs operational performance measure served as a modifier to adjust the Company performance payout one percentage point for every 2.5 million increase of NNAs above the target. The Company performance payment level could not exceed 200% of target. If the 2017 AIP Funding Threshold was met, 75% of the Target Incentive Amount was determined based on our Revenue and Non-GAAP Operating Margin financial performance as measured against the pre-established performance levels and the NNA modifier, and the remaining 25% of the Target Incentive Amount was determined based on individual performance.

The table below shows the following for the 2017 AIP:

- The threshold, target and maximum performance levels established by the Committee for the 2017 AIP. These performance levels were set in the first quarter of 2017 based primarily on our approved budget and operating plan for the year, and the target levels were in-line with full year guidance provided to the investment community in January 2017;
- The actual performance levels achieved in 2017; and
- The resulting Company Performance Score, defined as a payout percentage based on our performance as measured against these pre-established performance levels.



Company Measure <sup>1</sup>	Threshold	Target	Maximum	2017 Actual	Percentage of Target Achieved <sup>2</sup>
Revenue <sup>3</sup>	\$12.15	\$12.65	\$13.15	\$13.03	176%
Non-GAAP Operating Margin	19.2%	20.2%	21.2%	21.1%	188%
Net New Actives		20		28.1	3%
Company Performance Score					185%

<sup>1</sup>Revenue numbers are shown in billions and NNAs shown in millions.

<sup>2</sup>After the end of each year, our actual performance is compared to the performance measures to determine the payment level of the Company performance portion of the 2017 AIP, subject to Committee-approved variations due to material events not contemplated at the time the target levels were established (such as major acquisitions and divestitures) and the Committee's negative discretion. For 2017, the Committee adjusted 2017 Actual Revenue and Non-GAAP Operating Margin downward for the impact of the Company's agreement to sell the U.S. consumer credit portfolio to Synchrony Financial and adjusted NNAs to exclude certain NNAs not contemplated when company targets were set.

<sup>3</sup> The 2017 AIP Funding Threshold was \$11.77M.

### Individual Performance Measures

To facilitate differentiation based on individual performance, 25% of the Target Incentive Amount for our NEOs was based on individual performance (the "Individual Performance Score"). To determine each NEO's Individual Performance Score, which can range from 0% to 200%, Mr. Schulman presented to the Committee his assessment of each NEO's individual performance following the end of 2017, and the Committee assessed Mr. Schulman's individual performance, in each case, with respect to one or more individual performance factors (collectively, the "Performance Factors").

The Performance Factors related specifically to each NEO's job function and generally encompassed the following items for each NEO:

NEO	Performance Factors
Daniel H. Schulman	<ul style="list-style-type: none"> <li>• Provided strategic leadership and oversaw key strategic partnerships and corporate transactions.</li> <li>• Led PayPal through an outstanding year of financial outperformance during which we delivered growth that exceeded the high end of our initial guidance.</li> <li>• Led a comprehensive strategic review of PayPal's business portfolio that resulted in our 2017 announcement of an agreement to sell the U.S. consumer credit portfolio to Synchrony Financial.</li> <li>• Continued to deepen and strengthen PayPal's clear mission and vision as being a true Customer Champion and supporting customer choice.</li> <li>• Continued implementation of a set of values and core beliefs for PayPal to drive cultural change and create an environment centered on collaboration, innovation, wellness, and inclusion.</li> </ul>
John D. Rainey	<ul style="list-style-type: none"> <li>• Led PayPal's financial reporting, analysis and planning organization, including overseeing PayPal's internal controls over financial reporting.</li> <li>• Continued to implement programs and processes to facilitate cost savings and operational efficiencies across the business.</li> <li>• Executed financial plans designed to meet or exceed expectations for growth, margin, and cash flow targets.</li> <li>• Successfully managed corporate capital allocation decisions consistent with creation of stockholder value.</li> <li>• Led efforts to further enhance control environment and maintained high level of integrity over financial reporting.</li> <li>• Led effective investor relations activities and external guidance process.</li> </ul>
Gary J. Marino	<ul style="list-style-type: none"> <li>• Delivered significant growth and expansion in high growth regions, such as India.</li> <li>• Oversaw PayPal's marketing strategy and provided leadership with brand expansion strategies.</li> </ul>

**NEO****Performance Factors**

A. Louise Pentland

- Performance with respect to leading the legal department and overseeing enterprise wide corporate governance initiatives to reflect best practices.
- Led corporate affairs organization, which includes communications, social innovations, and government relations.
- Led the evolution of PayPal's global intellectual property strategy, both in protecting and creating intellectual property, as well as divesting redundant intellectual property.
- Led enterprise wide business affairs and enterprise wide human resources organizational transformations.
- Provided distinctive leadership and judgment in ongoing litigation strategy and business matters.

William J. Ready

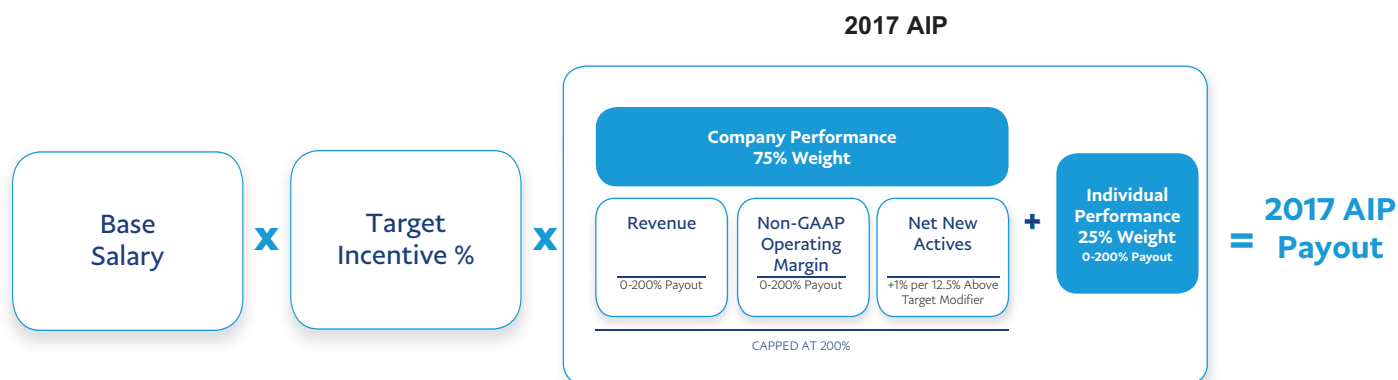
- Drove significant cost savings initiatives while maintaining high levels of customer satisfaction through supporting customer choice and being a true Customer Champion.
- Led the expansion of PayPal's value proposition through product innovation, which led to significantly higher adoption of PayPal experiences and operational wins.
- Led product strategy as a core competency of the business.

In determining the Individual Performance Score for each NEO, Mr. Schulman and the Committee did not place specific weightings on the Performance Factors, but performed a holistic and subjective assessment of each individual NEO's Performance Factors, taking into account the relative importance to us of each Performance Factor. Mr. Schulman recommended to the Committee each NEO's Individual Performance Score other than his own.

The Committee then made a final determination, in its sole discretion, as to the Individual Performance Score for each NEO after considering Mr. Schulman's recommendations (other than with respect to himself), reviewing each individual's performance with respect to the Performance Factors, and considering its own observations and assessments of each NEO's and the Company's performance. The Committee approved the Individual Performance Scores as recommended by Mr. Schulman for Messrs. Rainey, Marino and Ready and Ms. Pentland of 200%, 175%, 200% and 200%, respectively. For Mr. Schulman, the Committee approved an Individual Performance Score of 200%.

**2017 AIP Payment**

The actual amount of an NEO's 2017 AIP award was determined by the following formula:



Because the 2017 AIP Funding Threshold was met in 2017, the 2017 AIP was funded. The following table shows the 2017 AIP PBRSU Payout (in shares of Company stock) and the 2017 AIP Cash Payout (in dollars) for each NEO.

NEO	Target PBRsUs (75% of Target Incentive Amount) (in Shares)	x	75% (Company Performance Score) <sup>1</sup>	=	(a) 2017 AIP PBRsU Payout (in Shares)	+	Target Cash (25% of Target Incentive Amount) (\$)	x	25% (Individual Performance Score)	=	(b) 2017 AIP Cash Payout (\$)
Daniel H. Schulman	36,697		185%		67,889		500,000		200%		1,000,000
John D. Rainey	11,927		185%		22,065		162,500		200%		325,000
Gary J. Marino	10,092		185%		18,670		137,500		175%		240,625
A. Louise Pentland	11,468		185%		21,216		156,250		200%		312,500
William J. Ready	11,927		185%		22,065		162,500		200%		325,000

<sup>1</sup>The PBRsUs vested on February 15, 2018, based on the Company Performance Score of 185%.

### Long-Term Incentive Components

#### Long-Term Incentive Award Type and Annual Target Value

In making its determination on the long-term incentive (“LTI”) annual target value for 2017, the Committee set equity award guidelines and target levels of individual awards by position based on the following:

- equity compensation practices of technology companies in our peer group, as disclosed in their public filings (see “Other Compensation Practices and Policies – Use of Peer Group Comparisons” below for our 2017 peer group) and in proprietary third-party compensation surveys (the specific identity of respondents of which are not provided to the Committee or the Company);
- individual performance and potential;
- Incentive Compensation Factors; and
- need for individual retention incentives.

Based on these guidelines, the Committee approved the following annual target values for the 2017 LTI awards for the NEOs:

NEO	2017 LTI Grant Value (\$)
Daniel H. Schulman <sup>1</sup>	15,000,000
John D. Rainey <sup>2</sup>	5,000,000
Gary J. Marino <sup>3</sup>	6,000,000
A. Louise Pentland <sup>4</sup>	5,000,000
William J. Ready <sup>5</sup>	8,000,000

<sup>1</sup>For 2017, the Committee approved increasing Mr. Schulman’s LTI annual target value due in part to his pay relative to the competitive compensation data and his leadership of the Company and resulting Company performance.

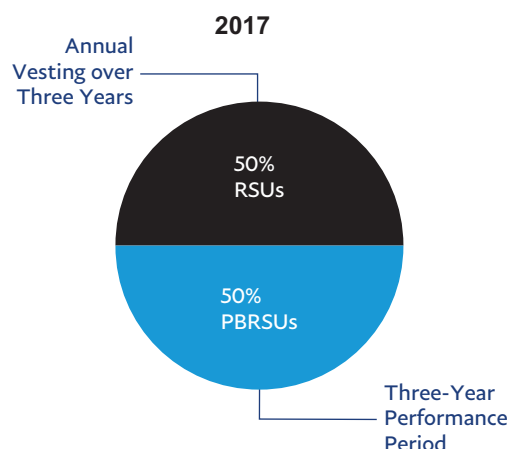
<sup>2</sup>Mr. Rainey’s LTI annual target value increased from 2016 due to his execution of financial plans that were designed to meet or exceed expectations for growth, operating margin and cash flow targets and the resulting Company performance and his pay relative to internal and external peers.

<sup>3</sup>Mr. Marino’s LTI annual target value increased from 2016 due to his expanding role and responsibilities and his pay relative to internal and external peers.

<sup>4</sup>Ms. Pentland’s LTI annual target value increased from 2016 due to her expanding role and responsibilities and her pay relative to internal and external peers.

<sup>5</sup>Mr. Ready’s LTI annual target value increased from 2016 due to his expanding role and responsibilities and his pay relative to internal and external peers.

Once the annual target values for the 2017 LTI awards were set for each NEO, the grant value was allocated equally among PBRsUs and service-based restricted stock units (“RSUs”).



The table below shows the resulting number of shares of our common stock subject to the 2017 LTI target PBRsUs and RSUs:

NEO	2017 Target PBRsUs <sup>1</sup>	2017 RSUs <sup>2</sup>
Daniel H. Schulman	181,941	181,941
John D. Rainey	60,647	60,647
Gary J. Marino	72,777	72,777
A. Louise Pentland	60,647	60,647
William J. Ready	97,035	97,035

<sup>1</sup>The target number of PBRsUs was determined by dividing the value of the award by the Average Company Closing Price. The PBRsUs were granted on March 1, 2017.

<sup>2</sup>The number of RSUs granted was determined by dividing the value of the award by the Average Company Closing Price. The RSUs were granted on March 1, 2017.

The following describes the two components of our 2017 LTI program: PBRsUs and RSUs.

#### Performance-Based Restricted Stock Units (PBRsUs)

In January 2017, the Committee approved the structure for the PBRsUs granted in 2017. To emphasize the importance of long-term, sustained strategic growth, the Committee approved a three-year performance period with each award to be settled for the number of shares of our common stock earned pursuant to the award following the end of the performance period, subject to the Committee’s approval of the level of achievement against the pre-established target levels for the selected performance measures (the “2017-2019 PBRsUs”).

#### PERFORMANCE MEASURES AND RATIONALES

The Committee approved the 2017-2019 PBRsU performance measures, which are the compound annual growth rates (“CAGR”) of FX-Neutral Revenue and Free Cash Flow over the three-year performance period from 2017-2019, as equally-weighted measures. The Committee believes that measuring CAGR over the three-year performance period is an appropriate performance measure as it is consistent with our long-term goal of growing our revenue and free cash flow.

The following table summarizes the performance measures for the 2017-2019 PBRsUs and the Committee's rationale for their selection:

Measure/Weighting	Definition	Purpose
FX-Neutral Revenue CAGR (50% weighting)	Calculated on a fixed foreign exchange basis (referred to as "FX-Neutral").	The Committee believes that the FX-Neutral Revenue measure should be used to help ensure that our executive officers are accountable for driving profitable growth, and making appropriate tradeoffs between investments that increase operating expense and future growth in revenue.
Free Cash Flow CAGR (50% weighting)	"Free Cash Flow" is defined as "Net cash provided by operating activities" less "Property and equipment, net" as reported in our Annual Report on Form 10-K for each year during the performance period.	The Committee believes that the Free Cash Flow measure should be used to emphasize the cash generation capability of the business necessary to finance its continued growth and investment requirements, while positioning us to take advantage of inorganic growth opportunities.

### PBRsU MECHANICS AND TARGETS

The targets established for the three-year performance period were set at a level consistent with the medium term outlook provided to the investment community. When the Committee set the target levels for the 2017-2019 PBRsUs, they were intended to be challenging but attainable based on anticipated market growth over the performance period, and to provide appropriate incentives for our executive officers to continue to grow our business. The Committee believes that achievement of maximum performance against the target levels would require sustained exceptional corporate performance over the performance period.

To earn any of the shares of our common stock subject to the 2017-2019 PBRsUs, at least one of the FX-Neutral Revenue CAGR or Free Cash Flow CAGR performance thresholds must be met. Each of the performance thresholds for FX-Neutral Revenue CAGR and Free Cash Flow CAGR is independent, and if either threshold is met, the award is earnable with respect to that performance measure based on the percentages shown in the table below. If the performance threshold for either FX-Neutral Revenue CAGR or Free Cash Flow CAGR is not met, there is no payment attributable to that performance measure.

The following chart shows the minimum, target, and maximum vesting levels for FX-Neutral Revenue CAGR and Free Cash Flow CAGR (linear interpolation applies to performance between threshold, target and maximum, with no funding for performance below threshold):

	Threshold	Target	Maximum
FX-Neutral Revenue CAGR (50% weighting)	50% Payout	100% Payout	200% Payout
Free Cash Flow CAGR (50% weighting)	50% Payout	100% Payout	200% Payout

### NO PERFORMANCE DETERMINATIONS RELATED TO PREVIOUSLY AWARDED PBRsUs IN 2017

2015 was the last year in which PBRsUs with a two-year performance period were granted based on performance criteria set by the eBay Compensation Committee. The amount and value of the award depended on our performance relative to the target levels approved by the eBay Compensation Committee in early 2015.

In 2016, the Committee approved a revised structure for future PBRsUs. To emphasize the importance of long-term, sustained strategic growth to the Company, the Committee approved extending the performance period from a two-year performance cycle to a three-year performance cycle with "cliff" vesting following the end of the performance period, subject to the Committee's approval of the level of achievement against the pre-established performance criteria.

Due to the change in our PBRsU performance cycles, from two years to three years, the Committee was not required to approve any performance determinations relating to 2017 for previously awarded PBRsUs.

### Restricted Stock Units

Our 2017 LTI awards also included service-based RSUs with a three-year annual vesting schedule, which aligns the vesting period of the RSUs with the three-year performance period of the PBRsUs granted in 2017. Service-based RSUs have value regardless of whether our stock price increases or decreases and therefore help to secure and retain executive officers and provide an appropriate incentive to remain with us during the vesting period.

## OTHER COMPENSATION ELEMENTS

### Base Salary

At the beginning of each year, the Committee meets to review and approve each executive officer's base salary for the year after considering competitive market data and the individual factors described below. For 2017, the Committee assessed competitive market data on base salaries from public filings of our peer group companies and general industry data for comparable technology and financial companies that are included in proprietary third-party compensation surveys (the specific identity of respondents of which are not provided to the Committee or the Company). The Committee also considered individual factors such as individual performance, levels of responsibility, breadth of knowledge, and prior experience in its evaluation of base salary adjustments.

In accordance with our emphasis on performance-based compensation, the Committee determined that none of the NEOs would receive an increase in base salary and in lieu of any base salary increase, the Committee delivered an increase in target total direct compensation through its decisions with respect to long-term incentive compensation, as discussed above.

NEO	Base Salary for 2017 (\$)	Base Salary for 2016 (\$)
Daniel H. Schulman	1,000,000	1,000,000
John D. Rainey	650,000	650,000
Gary J. Marino	550,000	550,000
A. Louise Pentland	625,000	625,000
William J. Ready	650,000	650,000

### Promotion Equity Award

#### Mr. Ready

The Committee believes that long-term equity incentives should comprise the majority of the target total direct compensation opportunity for our NEOs. In addition to the LTI awards described above, the Committee may also grant other equity awards from time to time in recognition of an NEO's promotion or special achievement. In 2017, a special equity grant of RSUs was made to Mr. Ready with a grant date value equal to \$16 million (the "Promotion RSU Award") in recognition of his promotion to Chief Operating Officer in late 2016. The vesting schedule of this Promotion RSU Award is intended to enhance our long-term retention objective, due to its back-loaded vesting schedule, as 50% of the Promotion RSU Award will vest on the second anniversary of the date of grant and 25% will vest on each of the third and fourth anniversaries of the date of grant, subject to Mr. Ready's continued service through the applicable vesting date. The Promotion RSU Award was granted after considering the input of the Committee's independent compensation consultant, the level deemed necessary to retain Mr. Ready's continued service to the Company in this key operational role over the four-year vesting period given the highly competitive labor market in the Bay Area, Mr. Ready's expanded scope of responsibilities, and his performance in that role since his promotion.

### "Make Whole" Payments

#### Mr. Rainey

Mr. Rainey commenced employment with us in August 2015 as our Senior Vice President, Chief Financial Officer. Pursuant to the terms of his offer letter, in recognition of his forfeited equity awards with his former employer, Mr. Rainey received the last "make-whole" payment in the amount of \$2 million in February 2017. This "make-whole" payment was subject to a clawback should Mr. Rainey's employment be terminated for cause or should he resign without good reason prior to the second anniversary of his commencement of employment.

### Deferred Compensation

The PayPal Holdings, Inc. Deferred Compensation Plan ("DCP"), our non-qualified deferred compensation plan, provides our U.S.-based executive officers a mechanism to defer compensation in excess of the amounts that are legally permitted to be deferred under our tax-qualified 401(k) savings plan (the "401(k) Plan"). Together, the 401(k) Plan and the DCP allow participants to set aside tax-deferred amounts. The Committee believes the opportunity to defer compensation is a competitive benefit that enhances our ability to attract and retain talented executives while building plan participants' long-term commitment to the Company. The investment return on the deferred amounts is linked to the performance of a range of market-based investment choices made available pursuant to the plan. None of our NEOs participated in or had a balance in the DCP during 2017.

## Other Benefits

### Perquisites

We provide certain executive officers with perquisites and other personal benefits that the Committee believes are reasonable and consistent with our overall executive compensation program and philosophy. These benefits are provided to help us attract and retain these executive officers. The Committee periodically reviews the levels of these benefits provided to our executive officers. In 2017, we offered the following perquisites to our NEOs:

#### CEO Security Program

We maintain a comprehensive security policy, and as a component of this policy, we may determine that in certain circumstances, certain executives should be required to have personal security protection. In June 2017, because of the high visibility of the Company, the Committee has authorized a CEO Security Program for Mr. Schulman to address safety concerns due to specific threats to his safety arising directly as a result of his position as our President and CEO. We paid for the initial procurement, installation and maintenance of personal residential security measures for Mr. Schulman and for the costs of security personnel during personal travel in a location in which he may be a particular target of criminal activity. In addition, the Committee approved Mr. Schulman's use of our corporate aircraft for personal travel in connection with his overall security program.

We require that the executive accept such personal security protection because we believe it is in the best interests of the Company and its stockholders that the executive not be vulnerable to security threats to the executive or members of his or her family. We also believe that the costs of this overall security program are appropriate and necessary. Although we do not consider Mr. Schulman's overall security program to be a perquisite for his benefit for the reasons described above, the costs related to personal security for Mr. Schulman at his residence and during personal travel, as well as the costs of private aircraft for personal travel pursuant to his overall security program are reported in the "All Other Compensation" column in the 2017 Summary Compensation Table below.

Prior to the Committee authorizing this change to the overall security program, Mr. Schulman was permitted to make limited personal use of our corporate aircraft for up to 50 hours per year, but was required to reimburse us for any personal use of the aircraft pursuant to the terms of a lease arrangement for all trip related expenses and hourly direct operating costs, as permitted under federal aviation regulations. As a result of this reimbursement arrangement, Mr. Schulman's personal use of the aircraft prior to the authorization of this change to the overall security program resulted in no additional cost to us in 2017.

#### Severance and Change in Control Provisions

Each of the NEOs is eligible to receive payments and benefits in the event of a termination of employment, including a termination of employment in connection with a change in control of the Company (the "Executive Severance Provisions"), either through specific provisions included in individual agreements with the Company or substantially similar provisions provided under our SVP and Above Standard Severance Plan and Change in Control Severance Plan for Key Employees. Under the Executive Severance Provisions, an NEO is eligible to receive payments and benefits in certain terminations of employment, including without limitation, a termination of employment by the Company without cause or by the executive for good reason. No payments or benefits are provided under the Executive Severance Provisions if there is a change in control of the Company without an accompanying qualifying termination of employment (i.e., no "single-trigger" payments). We do not provide any of the NEOs with excise tax "gross-ups" or other similar payments.

The Committee believes that these Executive Severance Provisions are essential to fulfill our objective to recruit, retain, and develop key, high-quality management talent in the competitive market because these arrangements provide reasonable protection to the executive officer in the event that he or she is not retained under specific circumstances. Further, the Executive Severance Provisions are intended to facilitate changes in the leadership team by setting terms for the termination of an NEO in advance, thus allowing a smooth transition of responsibilities when it is deemed to be in the best interest of the Company. The change in control provisions in the Executive Severance Provisions are intended to allow executives to focus their attention on our business operations in the face of the potentially disruptive impact of a proposed change-in-control transaction, to assess takeover bids objectively without regard to the potential impact on their individual job security, and to allow for a smooth transition in the event of a change in control of the Company. These factors are especially important in light of the executives' key leadership roles.

See "Potential Payments Upon Termination or Change in Control" below for a description of these arrangements and the estimated payments and benefits payable under the Executive Severance Provisions.

## Other Compensation Practices and Policies

### ROLES AND RESPONSIBILITIES

#### Compensation Committee

Our executive compensation program is designed and administered under the direction and control of the Committee. The Committee is comprised solely of independent directors, who review and approve our overall executive compensation program, policies and practices and set the compensation of our senior executives.

#### Compensation Consultant

The Committee's independent compensation consultant provides it with advice and resources to help it assess the effectiveness of our executive compensation strategy and program. This compensation consultant reports directly to the Committee, and the Committee has the sole power to terminate or replace the consultant at any time. In 2017, Compensia served as the Committee's compensation consultant.

As part of its engagement, the Committee directed Compensia to work with our Senior Vice President, People and other members of management to obtain information necessary to formulate recommendations and evaluate management's recommendations to the Committee. Compensia also meets with the Committee during its regular meetings, in executive session (where no members of management are present), and with the Committee chair and other Committee members outside of its regular meetings.

As part of its engagement in 2017, Compensia provided an environmental scan of executive compensation, evaluated our peer group composition, evaluated cash and equity compensation levels at the peer group companies for our executive officers, reviewed proposed compensation adjustments, advised on the framework for our annual and long-term incentive awards, assessed executive perquisites relative to peer and broader market practices, and reviewed the compensation of the non-employee directors. Compensia did not provide any other services to us in 2017.

The Committee recognizes that it is essential to receive objective advice from its compensation consultant. To that end, the Committee closely examines the procedures and safeguards that its compensation consultant takes to ensure that its services are objective. The Committee has assessed the independence of Compensia pursuant to SEC rules and concluded that its work for the Committee did not raise any conflict of interest.

#### CEO and the Human Resources ("People") Department

The Committee works with members of our management team, including our CEO, our EVP, Chief Business Affairs and Legal Officer, our Senior Vice President, People, and our Vice President, Global Rewards to formulate the specific plan and award designs, including performance measures and performance levels, necessary to align our executive compensation program with our business objectives and strategies.

Generally, our CEO reviews with the Committee his performance evaluations of each of our other NEOs and his recommendations regarding base salary adjustments, annual incentive awards and long-term incentives to ensure that the Committee's decisions consider our corporate financial and operational results as well as individual performance. The Committee makes all final decisions regarding the compensation of our NEOs.

While certain members of management attended the meetings of the Committee in 2017 upon invitation, they did not attend executive sessions of the meetings nor do they attend the portion of Committee meetings at which their own compensation was discussed.

### USE OF PEER GROUP COMPARISONS

In deciding whether a company should be included in our peer group, the Committee generally considered the following screening criteria:

- revenue;
- market capitalization;
- historical growth rates;
- primary line of business;
- whether the company has a recognizable and well-regarded brand; and
- whether we compete with the company for talent, particularly in the competitive Bay Area labor market.

For each member of the peer group, one or more of the factors listed above was relevant for inclusion in the group, and, similarly, one or more of these factors may not have been relevant for inclusion in the group. In addition, although some of our peer group members may be larger than the Company in terms of revenue or market capitalization, the Committee has determined to include such companies as peer group members where such peer companies compete with the Company for talent, particularly in the competitive Bay Area labor market.



In considering our executive compensation program for 2017 and going forward, the Committee considered the peer group used in measuring performance plans, as well as its goals of rewarding performance and retaining core top talent. Traditionally, companies compare their performance against the performance of a group of companies whose business models are relatively similar to those of the company. Executive compensation programs are generally designed to reward performance that is relatively stronger than that of its peers. Executive compensation programs are also generally designed to roughly parallel the programs of members of the performance peer group because employees have historically been recruited by these competitors and we compete against them for talent.

Our peer group consists generally of “technology” companies and “financial” companies. This is intended to provide the Committee with insight into the differences across these two sectors in which we generally compete for executive talent. Our peer group for 2017 is composed of 12 technology companies, which generally reflect the companies with which we directly compete for talent, and eight financial companies, which generally reflect the companies with which we not only compete for talent but also to which we more closely compare our financial performance. This is the same peer group that was used for evaluating 2016 compensation decisions except for the removal of LinkedIn, Inc. because it was acquired by Microsoft. These companies are as follows:

#### PEER GROUP COMPANIES

Adobe Systems Incorporated  
 Alphabet Inc. (Google Inc.)  
 Amazon.com, Inc.  
 American Express Company  
 Apple Inc.  
 Discover Financial Services  
 Facebook, Inc.  
 First Data Corporation  
 Global Payments Inc.  
 Intuit Inc.  
 MasterCard Incorporated  
 Netflix, Inc.  
 Oracle Corporation  
 Salesforce.com, Inc.  
 Square, Inc.  
 Symantec Corporation  
 The Western Union Company  
 Twitter, Inc.  
 Visa Inc.  
 Worldpay, Inc. (Vantiv, Inc.)


**Technology  
Companies**


**Financial  
Companies**

## STOCK OWNERSHIP GUIDELINES

Our Board has adopted robust stock ownership guidelines to better align the interests of our non-employee directors and executive officers with the interests of our stockholders and further promote our commitment to sound corporate governance. In January 2017, our Board approved revised stock ownership guidelines to align with changes to our executive leadership structure and to further emphasize the alignment of the interests of the newly promoted executive vice presidents with the interests of our stockholders. Under these guidelines, our executive officers are required to achieve ownership of our common stock valued at a multiple of their annual base salary:

- CEO — six times base salary
- EVPs — three times base salary

It is expected that each executive officer will meet his or her applicable guideline level within five years of his or her appointment to his or her position. Our stock ownership guidelines are available on our investor relations website at <https://investor.paypal-corp.com/corporate-governance.cfm>.

Prior to our executive officers satisfying their applicable guideline level, they are required to retain an amount equal to 25% of the net shares of our common stock received as the result of the exercise, vesting or payment of any equity awards granted to them.

Our non-employee directors are also subject to our stock ownership guidelines. The guideline level for each non-employee director is five times his or her annual retainer (excluding any additional retainer paid as a result of service as a Board chair, lead independent director, committee chair or committee member). Our non-employee directors are required to satisfy their guideline level within five years of joining the Board, and are expected to continuously own sufficient shares to satisfy the guideline once it is attained for as long as they remain a Board member.

Shares that count towards satisfaction of the stock ownership guidelines for our non-employee directors and executive officers include the following:

- shares owned outright by the director or executive officer, or his or her immediate family members residing in the same household;
- shares held in trust for the benefit of the director or executive officer, or his or her immediate family members; and
- vested deferred stock units, deferred restricted stock units or deferred performance stock units that may only be settled in shares of our common stock.

## HEDGING AND PLEDGING POLICY

Our insider trading policy prohibits members of our Board and executive officers from entering into any hedging or monetization transactions relating to our securities or otherwise trading in any instrument relating to the future price of our securities, such as a put or call option, futures contract, short sale, collar, or other derivative security. Our policy also prohibits the members of our Board and executive officers from pledging our common stock as collateral for any loans.

## CLAWBACK POLICY

The Committee has adopted a clawback policy that covers each officer employed as a vice president or in a more senior position (who we refer to as “covered employees”), and applies to incentive compensation, which includes any cash incentive award, equity-based award, or other incentive compensation award paid or awarded to any covered employee during the period in which he or she is designated as a covered employee. For all covered employees, the occurrence of either of the following events will trigger the policy: (a) an action or omission by the covered employee that constitutes a material violation of our Code of Business Conduct, or (b) an action or omission by the covered employee that results in material financial or reputational harm to the Company. In addition, for covered employees that are employed as a senior vice president (or in a more senior position) or as a vice president who is a member of the finance function, the following event will also trigger the policy: a material restatement of all or a portion of our financial statements that is the result of a supervisory or other failure by the covered employee.

Under the clawback policy, the Committee has the authority and discretion to determine whether an event covered by the policy has occurred and, depending on the facts and circumstances, may require the full or partial forfeiture and/or repayment of any incentive compensation covered by the policy that was paid or awarded to a covered employee. The forfeiture and/or repayment may include all or any portion of the following:

- any incentive compensation that is greater than the amount that would have been paid to the covered employee had the covered event been known;
- any outstanding or unpaid incentive compensation, whether vested or unvested, that was awarded to the covered employee; and

- any incentive compensation that was paid to or received by the covered employee (including gains realized through the exercise of stock options) during the 12-month period preceding the date on which we had actual knowledge of the covered event or the full impact of the covered event was known, or such longer period of time as may be required by any applicable statute or government regulation.

## TAX AND ACCOUNTING CONSIDERATIONS

As a publicly traded company, we are limited by Section 162(m) of the Internal Revenue Code to a deduction for federal income tax purposes of up to \$1 million of compensation paid to our CEO and certain of our other most highly compensated executive officers in a taxable year. Historically, compensation above \$1 million could be deducted only if, by meeting certain technical requirements, it can be classified as “performance-based compensation.” Although the Committee has historically used the requirements of Section 162(m) as a guideline, deductibility is not the sole factor it considers in assessing the appropriate levels and types of executive compensation. The Committee expressly retains the full discretion to forgo deductibility when it believes doing so is in our and our stockholders’ best interests.

We account for stock-based compensation in accordance with FASB ASC Topic 718, which requires us to recognize compensation expense for share-based payments (including stock options, restricted stock units, performance-based restricted stock units and other forms of equity compensation). The impact of FASB ASC Topic 718 has been taken into account by the Committee in determining to use a portfolio approach to our equity awards.

## COMPENSATION COMMITTEE REPORT

The Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on its review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company’s 2017 Annual Report on Form 10-K.

### The Compensation Committee of the Board

David W. Dorman (Chairman)

Wences Casares

Jonathan Christodoro

Gail J. McGovern

# Compensation Tables

## 2017 Summary Compensation Table

The following table summarizes the total compensation earned by each of our named executive officers, or NEOs, for the fiscal year ended December 31, 2017 and, to the extent required under the SEC executive compensation disclosure rules, the fiscal years ended December 31, 2016 and December 31, 2015. The information provided below includes compensation earned by our NEOs for services provided to eBay prior to the separation in July 2015 (the "Separation").

Name and Principal Position (a)	Year (b)	Salary (\$ (c))	Bonus (\$ (d))	Stock Awards <sup>(1)</sup> (\$ (e))	Option Awards (\$ (f))	Non-Equity Incentive Plan Compensation <sup>(2)</sup> (\$ (g))	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$ (h))	All Other Compensation <sup>(3)</sup> (\$ (i))	Total (\$)
Daniel H. Schulman President and Chief Executive Officer	2017	1,000,000	—	16,976,017	—	1,000,000	—	242,617	19,218,634
	2016	1,000,000	—	13,453,388	—	3,140,000	—	1,340,953	18,934,341
	2015	942,308	—	8,825,674	1,537,111	2,374,615	—	764,783	14,444,491
John D. Rainey Chief Financial Officer and Executive Vice President, Global Customer Operations	2017	650,000	—	5,645,887	—	325,000	—	2,010,800	8,631,687
	2016	650,000	—	4,139,520	—	979,875	—	4,165,313	9,934,708
	2015	212,500	—	8,369,049	706,251	241,188	—	1,153,558	10,682,546
Gary J. Marino Executive Vice President, Chief Commercial Officer	2017	550,000	—	6,598,408	—	240,625	—	10,800	7,399,833
A. Louise Pentland Executive Vice President, Chief Business Affairs and Legal Officer	2017	625,000	—	5,626,669	—	312,500	—	10,800	6,574,969
	2016	620,846	—	4,139,520	—	935,926	—	4,1232	5,737,524
	2015	398,846	—	6,486,866	426,548	502,546	—	3,674,330	11,489,136
William J. Ready Executive Vice President, Chief Operating Officer	2017	650,000	—	25,202,553	—	325,000	—	10,800	26,188,353
	2016	580,000	—	4,656,955	—	910,600	—	10,600	6,158,155
	2015	372,308	—	1,585,208	270,794	320,045	—	10,600	2,558,955

<sup>1</sup> Amounts shown represent the grant date fair value of RSUs and PBRsUs (including 2017 AIP PBRsUs) granted to each of our NEOs as computed in accordance with FASB ASC Topic 718. The grant date fair value of RSUs is determined using the fair value of the underlying common stock on the grant date. The assumptions used by the Company in calculating the grant date fair value of the stock awards are incorporated herein by reference to Note 16 to the consolidated financial statements contained in the Company's 2017 Annual Report on Form 10-K. The estimated fair value of PBRsUs is calculated based on the probable outcome of the performance measures for the applicable performance period as of the date on which the awards are granted for accounting purposes. Assuming the highest level of performance is achieved under the applicable performance measures for the 2017-2019 PBRsUs and the 2017 AIP PBRsUs, the maximum possible value of the awards using the fair value of the underlying common stock on the date that the awards were granted for accounting purposes is presented below:

Name	Maximum Value of 2017 AIP PBRsUs (as of Grant Date for Accounting Purposes) (\$)	Maximum Value of 2017-2019 PBRsUs (as of Grant Date for Accounting Purposes) (\$)
Mr. Schulman	3,073,007	15,439,513
Mr. Rainey	998,767	5,146,504
Mr. Marino	845,104	6,175,856
Ms. Pentland	960,330	5,146,504
Mr. Ready	998,767	8,234,390

<sup>2</sup> Amounts represent cash (non-equity) performance-based compensation earned under the individual performance portion of the Company's annual incentive plan for fiscal 2017 (the "2017 AIP"). For 2017, the Company performance portion was delivered in PBRsUs and is reflected in the "Stock Awards" column. In fiscal 2016 and 2015, the entire amount of the annual incentive payout was delivered as cash compensation and reflected in this column. See "Compensation Discussion and Analysis—Compensation Framework—Incentive (Performance-Based) Compensation for 2017" for a more detailed discussion.

<sup>3</sup> The dollar amounts for each perquisite and each other item of compensation shown in the "All Other Compensation" column and in this footnote represent the Company's incremental cost of providing the perquisite or other benefit to our NEOs, net of any amounts reimbursed by our NEOs, and are valued based on the amounts accrued for payment or paid to the service provider or NEO, as applicable. See "Compensation Discussion and Analysis—Compensation Framework—Other Compensation Elements" for additional discussions on these benefits. Amounts include the following perquisites and other items of compensation provided to our NEOs in 2017.

Name	401(k) Match <sup>a</sup> (\$)	Other Payments and Benefits <sup>b</sup> (\$)	Make Whole Payments <sup>c</sup> (\$)	Total (\$)
Mr. Schulman	10,800	231,817	—	242,617
Mr. Rainey	10,800	—	2,000,000	2,010,800
Mr. Marino	10,800	—	—	10,800
Ms. Pentland	10,800	—	—	10,800
Mr. Ready	10,800	—	—	10,800

<sup>a</sup> Represents the amount of the Company match of 401(k) Plan contributions to the NEO.

<sup>b</sup> Represents amounts the Company paid related to personal security.

<sup>c</sup> Represents the amount of "make whole" payment made pursuant to the terms of such NEO's offer letter.

## 2017 Grants of Plan-Based Awards

The following table sets forth information regarding grants of plan-based awards to each of our NEOs for the fiscal year ended December 31, 2017.

Name (a)	Approval Date (b)	Grant Date (c)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(3)</sup> (#)(j)	All Other Option Awards: Number of Securities Underlying Options (#)(k)	Exercise or Base Price of Option Awards (\$/Sh)(l)	Grant Date Fair Value <sup>(4)</sup> (\$)(m)
			Threshold (\$)(d)	Target (\$)(e)	Maximum (\$)(f)	Threshold (#)(g)	Target (#)(h)	Maximum (#)(i)				
Daniel H. Schulman												
2017 AIP – Cash			—	500,000	1,000,000	—	—	—	—	—	—	—
2017 AIP – PBRsUs	2/14/2017	2/15/2017	—	—	—	9,174	36,697	73,394	—	—	—	1,536,503
2017-2019 PBRsUs	2/14/2017	3/1/2017	—	—	—	45,485	181,941	363,882	—	—	—	7,719,757
RSUs	2/14/2017	3/1/2017	—	—	—	—	—	—	181,941	—	—	7,719,757
John D. Rainey												
2017 AIP – Cash			—	162,500	325,000	—	—	—	—	—	—	—
2017 AIP – PBRsUs	1/12/2017	2/15/2017	—	—	—	2,982	11,927	23,854	—	—	—	499,383
2017-2019 PBRsUs	1/12/2017	3/1/2017	—	—	—	15,162	60,647	121,294	—	—	—	2,573,252
RSUs	1/12/2017	3/1/2017	—	—	—	—	—	—	60,647	—	—	2,573,252
Gary J. Marino												
2017 AIP – Cash			—	137,500	275,000	—	—	—	—	—	—	—
2017 AIP – PBRsUs	1/12/2017	2/15/2017	—	—	—	2,523	10,092	20,184	—	—	—	422,552
2017-2019 PBRsUs	1/12/2017	3/1/2017	—	—	—	18,194	72,777	145,554	—	—	—	3,087,928
RSUs	1/12/2017	3/1/2017	—	—	—	—	—	—	72,777	—	—	3,087,928
A. Louise Pentland												
2017 AIP – Cash			—	156,250	312,500	—	—	—	—	—	—	—
2017 AIP – PBRsUs	1/12/2017	2/15/2017	—	—	—	2,867	11,468	22,936	—	—	—	480,165
2017-2019 PBRsUs	1/12/2017	3/1/2017	—	—	—	15,162	60,647	121,294	—	—	—	2,573,252
RSUs	1/12/2017	3/1/2017	—	—	—	—	—	—	60,647	—	—	2,573,252
William J. Ready												
2017 AIP – Cash			—	162,500	325,000	—	—	—	—	—	—	—
2017 AIP – PBRsUs	1/12/2017	2/15/2017	—	—	—	2,982	11,927	23,854	—	—	—	499,383
2017-2019 PBRsUs	2/9/2017	3/1/2017	—	—	—	24,259	97,035	194,070	—	—	—	4,117,195
RSUs	2/9/2017	3/1/2017	—	—	—	—	—	—	97,035	—	—	4,117,195
RSUs	2/9/2017	3/1/2017	—	—	—	—	—	—	388,140	—	—	16,468,780

<sup>1</sup> The amounts shown represent potential non-equity incentive plan awards under the individual performance portion of the 2017 AIP. Maximum amounts represent 200% of the NEO's target bonus opportunity under the 2017 AIP. For a more complete description of the 2017 AIP, see "Compensation Discussion and Analysis—Compensation Framework—Incentive (Performance-Based Compensation) for 2017."

<sup>2</sup> The amounts shown in the 2017 AIP – PBRsUs row represent the AIP PBRsUs granted in 2017 under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan (the "2015 Plan") for the Company performance portion of the 2017 AIP. Amounts shown in the "threshold" column represent 25% of the target number of shares, which represents the threshold performance of one of the two performance metrics. Awards are capped at the maximum of 200% of the target number of shares. The 2017 AIP PBRsUs vested on February 15, 2018 based on continued service through such date and performance from January 1, 2017 through December 31, 2017. For a more complete description of the 2017 AIP, see "Compensation Discussion and Analysis—Compensation Framework—Incentive (Performance-Based Compensation) for 2017."

The amounts shown in the 2017-2019 PBRsUs row represent the 2017-2019 PBRsUs granted in 2017 under the 2015 Plan. Amounts shown in the "threshold" column represent 25% of the target number of shares, which represents the threshold performance of one of the two performance metrics. Awards are capped at the maximum of 200% of the target number of shares. The 2017-2019 PBRsUs will vest based on performance over the 2017-2019 performance period. See "Compensation Discussion and Analysis—Compensation Framework—Incentive (Performance-Based) Compensation for 2017—Long-Term Incentive Components—Performance-Based Restricted Stock Units (PBRsUs)" for more information.

<sup>3</sup> The amounts shown represent service-based RSUs granted in 2017 under the 2015 Plan. Other than Mr. Ready's grant of 388,140 RSUs, these RSUs become fully vested over three years, with 33 1/3% vesting on the first, second and third anniversaries of the date of grant. Mr. Ready's grant of 388,140 RSUs becomes fully vested after four years, with 50% vesting on the second anniversary of the date of grant and 25% vesting on each of the third and fourth anniversaries of the date of grant. See "Compensation Discussion and Analysis—Compensation Framework—No Performance Determinations Related to Previously Awarded PBRsUs in 2017—Restricted Stock Units" for more information.

<sup>4</sup> Represents the grant date fair value determined in accordance with FASB ASC Topic 718. For stock awards, the grant date was calculated by multiplying the closing price of the underlying common stock on the date of grant by the number of stock awards granted. For the 2017 AIP PBRsUs and the 2017-2019 PBRsUs, the grant date fair value assumes the probable outcome of the performance conditions applicable thereto. See footnote 1 to the "2017 Summary Compensation Table" for more information. The assumptions used by the Company in calculating the grant date fair value of the stock awards are incorporated herein by reference to Note 16 to the consolidated financial statements contained in the Company's 2017 Annual Report on Form 10-K.

## 2017 Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding equity awards for each of our NEOs as of December 31, 2017.

Name	Option Awards						Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Grant Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>	Stock Award Grant Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(1)</sup>
Daniel H. Schulman	131,433	30,331 <sup>3</sup>		31.56	10/15/2014	10/15/2021					
	96,822	48,412 <sup>2</sup>		35.88	4/1/2015	4/1/2022					
	18,418	12,067 <sup>2</sup>		41.64	7/17/2015	7/17/2022					
							33,701 <sup>4</sup>	2,481,068	10/15/2014		
							36,308 <sup>4</sup>	2,672,995	4/1/2015		
							7,621 <sup>4</sup>	561,058	7/17/2015		
							109,110 <sup>9</sup>	8,032,678	4/1/2016		
							125,871 <sup>7</sup>	9,266,623	3/16/2015		
							26,419 <sup>7</sup>	1,944,967	7/17/2015		
							181,941 <sup>9</sup>	13,394,496	3/1/2017		
John D. Rainey							67,889 <sup>13</sup>	4,997,988	2/15/2017		
										178,469 <sup>11</sup>	13,138,888
										181,941 <sup>15</sup>	13,394,496
	50,977	36,413 <sup>3</sup>		33.80	9/15/2015	9/15/2022					
							43,694 <sup>9</sup>	3,216,752	9/15/2015		
							21,847 <sup>4</sup>	1,608,376	9/15/2015		
							33,572 <sup>9</sup>	2,471,571	4/1/2016		
							75,738 <sup>7</sup>	5,575,832	9/15/2015		
							60,647 <sup>9</sup>	4,464,832	3/1/2017		
							22,065 <sup>13</sup>	1,624,425	2/15/2017		
Gary J. Marino										54,914 <sup>11</sup>	4,042,769
										60,647 <sup>15</sup>	4,464,832
	1,368	1,369 <sup>2</sup>		35.20	4/1/2014	4/1/2021					
	2,689	10,759 <sup>2</sup>		35.88	4/1/2015	4/1/2022					
	1,345	5,380 <sup>2</sup>		35.88	4/1/2015	4/1/2022					
							2,052 <sup>12</sup>	151,068	4/1/2014		
							4,034 <sup>4</sup>	296,983	4/1/2015		
							8,068 <sup>4</sup>	593,966	4/1/2015		
							25,179 <sup>9</sup>	1,853,678	4/1/2016		
							72,777 <sup>9</sup>	5,357,843	3/1/2017		
							6,993 <sup>8</sup>	514,825	3/16/2015		
							13,987 <sup>8</sup>	1,029,723	3/16/2015		
							18,670 <sup>13</sup>	1,374,485	2/15/2017		
										41,186 <sup>11</sup>	3,032,113
										72,777 <sup>15</sup>	5,357,843

Name	Option Awards						Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price(\$)	Option Grant Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>	Stock Award Grant Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(1)</sup>
A. Louise Pentland	32,599	16,300 <sup>3</sup>		37.31	5/15/2015	5/15/2022					
							12,224 <sup>4</sup>	899,931	5/15/2015		
							54,332 <sup>4</sup>	3,999,922	5/15/2015		
							33,572 <sup>9</sup>	2,471,571	4/1/2016		
							21,190 <sup>8</sup>	1,560,008	5/15/2015		
							60,647 <sup>9</sup>	4,464,832	3/1/2017		
							21,216 <sup>13</sup>	1,561,922	2/15/2017		
										54,914 <sup>11</sup>	4,042,769
										60,647 <sup>5</sup>	4,464,832
William J. Ready	21,516	10,759 <sup>2</sup>		35.88	4/1/2015	4/1/2022					
							25,094 <sup>6</sup>	1,847,420	1/15/2014		
							5,340 <sup>6</sup>	393,131	1/15/2014		
							8,068 <sup>4</sup>	593,966	4/1/2015		
							37,768 <sup>9</sup>	2,780,480	4/1/2016		
							13,986 <sup>8</sup>	1,029,649	3/16/2015		
							97,035 <sup>9</sup>	7,143,717	3/1/2017		
							388,140 <sup>10</sup>	28,574,867	3/1/2017		
							22,065 <sup>13</sup>	1,624,425	2/15/2017		
										61,778 <sup>11</sup>	4,548,096
										97,035 <sup>5</sup>	7,143,717

<sup>1</sup> Market Value is calculated based on the closing price of \$73.62 of our common stock on December 29, 2017.

<sup>2</sup> Becomes fully vested after four years, with 12.5% vesting on the six-month anniversary of the grant date, and 1/48th vesting monthly thereafter.

<sup>3</sup> Becomes fully vested after four years, with 25% vesting on the one-year anniversary of September 30, 2014, and 1/48th vesting monthly thereafter.

<sup>4</sup> Becomes fully vested after four years, with 25% vesting on each of the first four anniversaries of the grant date.

<sup>5</sup> The amounts reported in this row are based on achieving target performance goals for the PBRUS awards granted in 2017, as performance for the 2017-2019 performance period is measured on a cumulative basis and is not determinable until the end of the three-year performance period. The PBRUS awards vest based on the Company's performance over the three-year performance period with respect to the FX-Neutral Revenue CAGR and Free Cash Flow CAGR goals. The PBRUS earned based on Company performance will vest 100% on March 1, 2020, subject to the NEO's continued employment through the vesting date.

<sup>6</sup> Becomes fully vested after four years, with 20% vesting on the second anniversary of the grant date, and 3.33% vesting monthly thereafter.

<sup>7</sup> PBRUS award. Earned in connection with the 2015-2016 performance period, with 100% vested on March 1, 2018 (the first anniversary of the RSU grant date).

<sup>8</sup> PBRUS award. Earned in connection with the 2015-2016 performance period, with 50% vested on March 1, 2017 (the RSU grant date) and the remaining 50% vesting on March 1, 2018 (the first anniversary of the grant date).

<sup>9</sup> Becomes fully vested over three years, with 33 1/3% vesting on the first, second and third anniversaries of the date of grant.

<sup>10</sup> Becomes fully vested after four years, with 50% vesting on the second anniversary of the date of grant and 25% vesting on each of the third and fourth anniversaries of the date of grant.

<sup>11</sup> The amounts reported in this row are based on achieving target performance goals for the PBRUS awards granted in 2016, as performance for the 2016-2018 performance period is measured on a cumulative basis and is not determinable until the end of the three-year performance period. The PBRUS awards vest based on the Company's performance over the three-year performance period with respect to the FX-Neutral Revenue CAGR and Free Cash Flow CAGR goals. PBRUS earned based on Company performance will vest 100% on March 1, 2019, subject to the NEO's continued employment through the vesting date.

<sup>12</sup> Becomes fully vested after four years, with 33 1/3% vesting on the second anniversary of the grant date, and 33 1/3% vesting on the third and fourth anniversaries of the grant date.

<sup>13</sup> 2017 AIP Share award. Represents unearned shares under the 2017 AIP granted in 2017, subject to the achievement of the performance goals over the one-year performance period from January 1, 2017 through December 31, 2017. Following the performance period, AIP Shares are earned based on Company performance, with 100% vested on February 15, 2018.

## 2017 Option Exercises and Stock Vested

The following table sets forth the number of shares acquired and the value realized upon exercise of stock options and the vesting of stock awards by each of our NEOs for the fiscal year ended December 31, 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Daniel H. Schulman	—	—	151,474	7,411,656
John D. Rainey	—	—	71,406	4,135,864
Gary J. Marino	12,310	135,339	50,912	2,173,738
A. Louise Pentland	—	—	71,256	3,277,564
William J. Ready	—	—	402,100	21,895,123

## 2017 Non-Qualified Deferred Compensation

All NEOs are eligible to participate in the PayPal Holdings, Inc. Deferred Compensation Plan (the “DCP”); however, none of our NEOs participated in the DCP in 2017.

The DCP is a non-qualified voluntary deferred compensation plan that allows participants to defer certain amounts of compensation. The DCP provides a supplement to our 401(k) Plan and permits personal savings beyond the IRS contribution limits on qualified plans. All amounts deferred under the DCP are reflected in book-keeping accounts. Each participant is permitted to elect to defer annually, in any whole percentages: (i) from 5% to 50% of base salary; (ii) from 5% to 100% of the incentive award earned by the participant under the AIP; and (iii) from 5% to 100% of RSUs, subject to certain limitations pursuant to the terms of the DCP and rounded to the nearest whole share. All amounts deferred under the DCP are fully vested. The DCP has been designed so that federal and state income taxes on the monies deferred are not due until such time as the account balance is paid to a participant. Participants can elect distribution of their account balances from a given year to be paid to them while they are still working or they can elect to have payments made to them in the event of their separation from service with us. Payments can be made in a lump sum payment or as annual installments over a period of greater than two years and less than fifteen years.

The return on the deferred amounts is linked to the performance of market-based investment choices made available to participants under the DCP. While the deferred dollars are not actually invested in the investment fund(s), earnings or losses of the tracking fund are applied to the participant’s deferral dollars as if they were invested in the fund(s). Participants may make changes to their investment choices daily.



## Potential Payments Upon Termination or Change in Control

The following table, footnotes, and narrative set forth our payment obligations pursuant to the compensation arrangements for each of our NEOs, under the circumstances described below, assuming that his or her employment was terminated or a change in control occurred on December 31, 2017. Because our executive compensation program is heavily weighted towards equity-based compensation, a significant percentage of the compensation to be received by our NEOs upon a termination of employment under the circumstances described below relates to the settlement of outstanding equity awards. Please see the 2017 Outstanding Equity Awards at Fiscal Year-End table for further information regarding outstanding equity awards granted to the NEOs in 2017 and in prior years.

Name	Voluntary Termination (\$)(a) <sup>(1)</sup>	Involuntary Termination Outside of Change in Control Period (\$)(b) <sup>(2)(3)</sup>	Involuntary Termination Within Change in Control Period (\$)(c) <sup>(2)(3)</sup>	Death or Disability (\$)(d) <sup>(2)(3)(4)</sup>
Daniel H. Schulman	—	38,678,674	78,644,277	50,516,578
John D. Rainey	—	16,440,379	31,207,962	21,341,869
Gary J. Marino	3,789,326	7,528,515	22,248,338	19,533,213
A. Louise Pentland	—	9,617,392	26,404,398	16,482,656
William J. Ready	2,240,551	23,354,560	58,970,902	35,966,934

<sup>1</sup> For Mr. Marino, the amount reflects his retirement-eligibility with respect to the RSUs, as discussed below. Further, pursuant to the PBRUS award agreement provisions, the PBRUSs will vest on a prorated basis based on the number of full months of service during the performance period and actual performance during the entire performance period. The estimated value for outstanding PBRUSs, assuming a December 31, 2017 termination and target performance, was \$3,807,356.

<sup>2</sup> Amounts do not take into account potential reductions due to "best net pay" provisions in respective agreements and the CIC Severance Plan, as more fully discussed below.

<sup>3</sup> Amounts assume cash payments equal to the value of equity awards (and for purposes of column (c) for all NEOs and column (d) for Mr. Marino, target performance of outstanding PBRUSs), as more fully discussed below.

<sup>4</sup> For Mr. Marino, amount reflects the death and disability provisions under the terms of the CIC Severance Plan, as more fully discussed below.

### VOLUNTARY TERMINATION (COLUMN (a))

#### Severance Arrangement for Mr. Ready

The eBay compensation committee approved entering into an agreement with Mr. Ready prior to the Separation. Assuming a termination date of December 31, 2017, Mr. Ready would be entitled to the following under the terms of that agreement in the event that he elected to resign from employment:

- a cash amount equal to the value of the equity subject to the RSUs granted on January 15, 2014, that would otherwise have vested in the six months following the termination date.

#### Retirement Benefits for Mr. Marino

Mr. Marino is retirement-eligible under the 2016-2018 PBRUS and 2017-2019 PBRUS award agreements. Pursuant to the PBRUS award agreement provisions, in the event Mr. Marino voluntarily resigns at a time when he has attained at least 60 years of age and completed at least five years of service ("Retires"), the PBRUSs will vest on a prorated basis based on the number of full months of service during the performance period and actual performance during the entire performance period, and settled following the performance period. Mr. Marino is also eligible for prorated vesting of RSUs. In the event he Retires, Mr. Marino would receive prorated vesting of the next tranche of RSUs that would have vested following his Retirement.

### INVOLUNTARY TERMINATION OTHER THAN FOR CAUSE (COLUMN (b))

#### Severance Arrangements for Involuntary Termination Other Than for Cause for Messrs. Schulman, Rainey and Ready and Ms. Pentland

Each of Messrs. Schulman, Rainey and Ready and Ms. Pentland entered into separate agreements with the Company. Assuming a termination date of December 31, 2017 each of Messrs. Schulman, Rainey and Ready and Ms. Pentland would be entitled to the following under the terms of their respective agreements in the event that his or her employment with us was terminated outside of the "change in control period," which is defined as more than 90 days prior to or more than 24 months following a "change in control" (as defined in the 2015 Plan), either (a) by us for any reason other than "cause," "disability" or death or (b) by Messrs. Schulman and Rainey and Ms. Pentland for "good reason" (as each term is defined in the respective agreements), subject to the executive's execution of a release of claims:

- for Mr. Schulman, a cash payment equal to two times the sum of (a) annual base salary and (b) target bonus amount; for Mr. Rainey, a cash payment equal to 1.5 times the sum of (a) annual base salary and (b) target bonus amount; and for Ms. Pentland and Mr. Ready, a cash payment equal to one times the sum of (a) annual base salary and (b) target bonus amount ("Agreement Severance Payment");
- a prorated annual cash bonus for the year of termination based on actual company performance ("Prorated Cash Incentive Award");
- for Mr. Schulman, a cash payment equal to the value of the unvested initial equity awards and "make whole" RSU awards (where value is determined using the average closing price of the Company's common stock for the 10 consecutive trading days

ending on and including the trading day immediately prior to the termination date (the “Average Closing Price”)) and for Mr. Rainey, the unvested supplemental RSUs that were granted pursuant to his offer letter (where value is determined using the Average Closing Price);

- for Messrs. Schulman and Rainey and Ms. Pentland, a cash payment equal to the value of any other unvested equity awards that are outstanding and unvested that otherwise would have become vested within 12 months following date of termination of employment (where value is determined using the Average Closing Price and the Valuation Assumptions as defined in the respective agreements); and
- for Mr. Ready, if terminated without “cause,” a cash amount equal to the value of any other equity awards that are outstanding and unvested as of the date of termination which otherwise would have become vested pursuant to their vesting schedules within 12 months following the termination date (where value is determined using the Average Closing Price and the Valuation Assumptions, as defined in his agreement).

#### Severance Arrangements for Involuntary Termination Other than for Cause for Participants in the PayPal Holdings, Inc. SVP and Above Standard Severance Plan

As of the end of fiscal 2017, Mr. Marino was eligible to participate in the PayPal Holdings, Inc. SVP and Above Standard Severance Plan (the “Severance Plan”).

The Severance Plan provides eligible employees with severance payments and benefits in the event that an eligible employee’s employment with us or one of our subsidiaries, affiliates or a successor company is involuntarily terminated without “cause” (as defined in the Severance Plan) by us outside of the “change in control period” (as defined above), subject to the employee’s execution of a release of claims, as follows:

- a cash payment equal to one times the sum of (a) annual base salary and (b) target bonus amount;
- a Prorated Cash Incentive Award;
- if the NEO is employed by the Company in the U.S., participates in the Company’s health insurance plan and is eligible to continue to participate in the plan under COBRA, such NEO will receive a lump sum cash payment equal to the product of (i) the monthly premium payable by the NEO for himself (and his eligible dependents) under the Company’s health insurance plan in which he participates immediately prior to the employment termination date and (ii) 24;
- accelerated vesting of time-based equity awards that would have otherwise become vested pursuant to their ordinary vesting schedule within the 12 months following the employment termination date, settled in a lump sum, through vesting of stock, payment of cash in lieu of vesting shares of stock, or a combination thereof;
- for performance-based equity awards, any such award will remain outstanding and eligible to vest, based solely on the achievement of the Company performance targets upon which the awards are subject for any performance period that ends within the first anniversary of the NEO’s employment termination date; and to the extent such performance targets are determined to have been achieved following the completion of the performance period, the NEO will be treated as though immediately vested in that percentage of the resulting amount of such equity award that would, on or prior to such first anniversary, have otherwise become vested pursuant to the existing vesting schedule that would have applied to such equity awards, to be settled in lump sum, through vesting of stock, payment of cash in lieu of vesting shares of stock, or a combination thereof; and
- in the event the Company elects to settle any such equity awards through the payment of cash in lieu of vesting shares of stock, the Company will pay the NEO a lump sum cash amount equal to the value of all of the equity awards that are treated as though vested in accordance with the foregoing bullet points (where value is determined using the Average Closing Price).

#### CHANGE IN CONTROL (COLUMN (c))

##### Severance Arrangements for an Involuntary Termination in Connection with a Change in Control for Messrs. Schulman, Rainey and Ready and Ms. Pentland

Each of Messrs. Schulman, Rainey, and Ready and Ms. Pentland would be entitled to receive the following under their respective agreements if a “change in control” (as defined in the 2015 Plan) occurred as of December 31, 2017 and his or her employment with us was terminated within the “change in control period,” either (a) by us for any reason other than “cause,” “disability” or death or (b) by the executive for “good reason” (as each term is defined in the respective agreements), subject to the executive’s execution of a release of claims:

- Agreement Severance Payment; provided, however, that Ms. Pentland and Mr. Ready would be eligible to receive a cash payment equal to two times the sum of (a) annual base salary, and (b) target bonus amount;
- Prorated Cash Incentive Award; and
- a cash payment equal to the value of all unvested equity awards outstanding (where value is determined using the Average Closing Price and the Valuation Assumptions).

Under each respective agreement, in the event any payments or benefits constitute “golden parachute payments” within the meaning of Section 280G of the Internal Revenue Code (“IRC”) and would be subject to the excise tax imposed by IRC Section 4999, such payments or benefits will be reduced to the maximum amount that does not result in the imposition of such excise tax, but only if such reduction results in the executive receiving a higher net-after tax amount than such executive would have received absent such reduction (the “best net pay” provision).

## Severance Arrangements for an Involuntary Termination in Connection with a Change in Control for Participants in the PayPal Holdings, Inc. Change in Control Severance Plan for Key Employees

As of the end of fiscal 2017, Mr. Marino was eligible to participate in the PayPal Holdings, Inc. Change in Control Severance Plan for Key Employees (the "CIC Severance Plan"). Under the terms of the CIC Severance Plan, Mr. Marino would have been entitled to receive the following if a "change in control" (as defined in the 2015 Plan) occurred as of December 31, 2017 and his employment with us is terminated within the "change in control period," either (a) by us for any reason other than "cause," "disability" or death or (b) by the executive for "good reason" (as each of those terms is defined in the CIC Severance Plan), subject to the executive's execution of a release of claims:

- a lump sum cash payment of the annual cash bonus that the executive would have earned assuming achievement of target performance, as applicable in respect of the fiscal year in which the termination occurs; except, if the employee's bonus is intended to constitute performance-based compensation within the meaning of IRC Section 162(m), the bonus will be paid based on actual company performance through the date of termination;
- a lump sum cash payment equal to the product of (a) the sum of the executive's base salary (in effect upon the occurrence of the termination event) and target bonus (for the bonus year in which the separation occurs), and (b) two;
- if the employee is employed by the Company in the U.S., participates in the Company's health insurance plan and is eligible to continue to participate in the plan under COBRA, such NEO will receive a lump sum cash payment equal to the product of (i) the monthly premium payable by the NEO for himself (and his eligible dependents) under the Company's health insurance plan in which he participates immediately prior to the employment termination date and (ii) 48; and
- the eligible employee's unvested time-vested equity awards will be treated as fully vested. If the termination occurs during a performance period with respect to an award of PBRsUs, such award will be deemed earned assuming achievement of target performance for purposes of determining the number of awards that will be treated as becoming immediately vested; however, if the employee's awards are intended to constitute performance-based compensation subject to IRC Section 162(m), such awards will remain outstanding and only be treated as becoming fully vested if and to the extent that they otherwise would have become earned based on actual company performance through the end of the applicable performance period. Settlement of the awards will be through either the vesting of common stock under the award or, in lieu thereof, payment in cash or a combination thereof, at our discretion. In general, if a cash payment is made in lieu of vesting an award, the value of the unvested award is determined using the average closing price of our common stock for the 10 consecutive trading days ending on and including the trading day immediately prior to the date of separation or at the end of the performance period, as applicable.

The payment of all of the benefits described above will be within 90 days following the termination of employment, except as noted above.

Under the CIC Severance Plan, in the event any payments or benefits constitute "golden parachute payments" within the meaning of IRC Section 280G and would be subject to the excise tax imposed by IRC Section 4999, such payments or benefits will be reduced to the maximum amount that does not result in the imposition of such excise tax, but only if such reduction results in the officer receiving a higher net-after tax amount than such officer would have received absent such reduction (the "best net pay" provision).

### Change in Control—Equity Awards

PayPal has not entered into any arrangements with any of its NEOs to provide "single trigger" change in control payments. The 2015 Plan generally provides for the acceleration of vesting of awards granted under the plans upon a change in control (as defined in the applicable plan) only if the acquiring entity does not agree to assume or continue the awards. Under the terms of the 2015 Plan, for purposes of determining payouts in connection with or following a change in control, PBRsU performance will be based on applicable performance metrics through the date of change in control. These provisions generally apply to all holders of awards under the equity incentive plans.

## DEATH OR DISABILITY (COLUMN (d))

### Severance Arrangements in the Event of Death or Disability

Under the terms of the respective agreements of Messrs. Schulman, Rainey and Ready and Ms. Pentland, if such executive's employment terminates due to his or her death or disability, he or she will be entitled to receive a cash payment equal to the value of any unvested equity awards that would have otherwise vested within 24 months of his or her termination date (where value is determined using the Average Closing Price and the Valuation Assumptions).

Under the terms of the Severance Plan, Mr. Marino will be entitled to accelerated vesting of any unvested equity awards that would have otherwise vested within 24 months of the termination date. For purposes of the foregoing sentence, if the termination date occurs during the performance period of a performance-based equity award, then such award will be deemed to be fully earned assuming achievement at target. In the event the Company elects to settle any such awards through the payment of cash in lieu of vesting shares of stock, the Company will pay a lump sum cash amount equal to the value of all of the equity awards that are treated as though vested in accordance with the foregoing (where value is determined using the Average Closing Price).

Under the terms of the CIC Severance Plan, if Mr. Marino dies or becomes disabled at any time during the change in control period, his unvested equity awards will be treated as fully vested and be settled in the same manner as described above in "Severance Arrangements for an Involuntary Termination in Connection with a Change in Control for Participants in the PayPal Holdings, Inc. Change in Control Severance Plan for Key Employees."

## CEO Pay Ratio Disclosure

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We are providing the following information about the relationship of the annual total compensation of Mr. Schulman, our CEO, to the median of the annual total compensation of our employees, which we refer to as the “pay ratio.” We believe that the pay ratio disclosed below is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K. SEC rules for identifying the median employee and calculating the pay ratio allow companies to apply various methodologies and assumptions and, as a result, the pay ratio reported by us may not be comparable to the pay ratio reported by other companies.

For 2017, our last completed fiscal year, the median of the annual total compensation of the Company’s employees (other than our CEO) was \$70,228, and the annual total compensation of our CEO, as reported in the “Total” column of the “2017 Summary Compensation Table” elsewhere in this Proxy Statement, was \$19,218,634.

Based on this information, for 2017, we estimate that the pay ratio of the annual total compensation of our CEO to the median of the annual total compensation of our employees is 274:1.

### Methodology for Determining Our Median Employee

We selected December 31, 2017 (the last day of our fiscal year) as the date for identifying our median employee. As of that date, we compiled compensation information for all of our employees worldwide, except that we excluded employees of Swift Financial (representing approximately 230 employees), which we acquired in September 2017. For purposes of identifying the median employee from our global employee population, we compared the amount of base salary, allowances, short-term incentives and other bonuses paid during 2017 and the intended grant value related to any long-term incentive equity awards granted during 2017, as reflected in our global human resource and equity management systems. The elements in this compensation measure are representative of the principal forms of compensation delivered to our employees. We identified our median employee using this compensation measure, which was consistently applied to all employees included in the calculation.

Once we identified our median employee, we identified and calculated the elements of that employee’s compensation for 2017 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in annual total compensation of \$70,228. For the annual total compensation of our CEO, we used the amount reported in the “Total” column of our “2017 Summary Compensation Table” elsewhere in this Proxy Statement.

## Equity Compensation Plan Information

The following table gives information about shares of our common stock that may be issued upon the exercise of options and rights under our equity compensation plans as of December 31, 2017. We refer to these plans and grants collectively as our Equity Compensation Plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (\$)	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity Compensation Plans approved by security holders	39,860,180 <sup>1</sup>	31.9471 <sup>2</sup>	46,583,737 <sup>3</sup>
Equity Compensation Plans not approved by security holders	745,066 <sup>4</sup>	17.9094 <sup>2</sup>	—
Total	40,605,246	28.8831	46,583,737

<sup>1</sup> Includes (a) 28,266,756 shares of our common stock issuable pursuant to RSUs under our 2015 Equity Incentive Award Plan, as amended and restated, or our 2015 Plan, (b) 1,883,587 shares of our common stock issuable pursuant to stock options under our 2015 Plan, (c) 262,201 shares of our common stock issuable pursuant to DSUs under our 2015 Plan, and (d) 4,758,857 shares of common stock issuable from outstanding 2017 AIP Shares awarded under the 2017 AIP (representing the actual number of shares that were earned based on actual Company performance for the one-year performance period ending December 31, 2017), 2,320,616 shares of our common stock issuable from outstanding PBRsUs awarded under the 2017-2019 PBRsUs (representing the maximum number of shares assuming maximum achievement), 2,013,702 shares of our common stock issuable from outstanding PBRsUs awarded under the 2016-2018 PBRsUs (representing the maximum number of shares assuming maximum achievement), and 354,461 shares of our common stock issuable from outstanding PBRsUs awarded under the 2015-2016 PBRsUs (representing the actual number of shares that were based on actual Company performance for the two-year performance period ending December 31, 2016). RSUs and DSUs each represent an unfunded, unsecured right to receive shares of Company common stock. The value of RSUs and DSUs varies directly with the price of our common stock.

<sup>2</sup> Does not include outstanding RSUs or DSUs.

<sup>3</sup> Includes 5,379,896 shares of our common stock reserved for future issuance under our Employee Stock Purchase Plan, as of December 31, 2017.

<sup>4</sup> Represents shares of our common stock to be issued upon exercise of outstanding options or vesting of RSUs assumed from the Modest and Xoom stock plans as part of our acquisitions in 2015 and from the Tio Networks and Swift Financial stock plans as part of our acquisitions in 2017. We do not intend to make further grants of any awards under these plans.

## Proposal 3 — Approval of the Amended and Restated 2015 Equity Incentive Award Plan

We are seeking stockholder approval to amend and restate our 2015 Equity Incentive Award Plan (the “2015 Plan”) to increase the number of shares of Common Stock of the Company (the “Shares”) reserved for issuance under the 2015 Plan by an additional 37 million Shares. We believe that our continuing ability to offer equity incentive awards under the 2015 Plan is critical to our ability to attract, motivate and retain qualified personnel, particularly as we grow and in light of the highly competitive market for employee talent in which we operate. The proposed amendments to the 2015 Plan also:

- take into account the Tax Cuts and Jobs Act and the impact on Section 162(m);
- revise the minimum vesting provision to reflect that no portion of any awards granted under the 2015 Plan following the Annual Meeting shall vest before the one-year anniversary of the date of grant, with certain limited exceptions (the previous minimum vesting provision applied only to full value awards and allowed awards to become vested on one or more vesting dates over a period of not less than three years, or in the case of vesting based on attainment of performance based objectives, over a period of not less than one year measured from the commencement of the period over which performance is evaluated);
- revise to provide that dividend payments may not be made prior to vesting for all award types;
- revise the definition of “Effective Date” under the 2015 Plan to be the date the Plan was last approved by our stockholders; and
- revise various other provisions related to the administration and interpretation of the 2015 Plan.

The Board has determined that it is in the best interests of the Company and its stockholders to approve this proposal. The Board, upon the recommendation of the Compensation Committee, has approved the amended and restated 2015 Plan, including the increase of Shares reserved for issuance, subject to stockholder approval, and recommends that stockholders vote in favor of this proposal at the Annual Meeting.

If our stockholders approve this proposal, the amended and restated 2015 Plan, including the increase of Shares reserved for issuance, will become effective as of the date of stockholder approval. If our stockholders do not approve this proposal, the amended and restated 2015 Plan and Share increase will not take effect, and our 2015 Plan will continue to be administered in its current form. Our executive officers and directors have an interest in this proposal by virtue of their being eligible to receive equity awards under the 2015 Plan. References to the 2015 Plan in the remainder of this discussion refer to the amended and restated 2015 Plan as if this proposal is approved by our stockholders, unless otherwise specified or the context otherwise references the 2015 Plan prior to it being amended and restated.

### Increasing the Number of Shares Reserved for Issuance under the 2015 Plan

#### BACKGROUND

The 2015 Plan was initially adopted by the Board in June 2015 and approved by the Company’s sole stockholder (eBay Inc.) prior to the Separation. In March 2016, the Board approved an amendment and restatement of the 2015 Plan, which among other items, modified the plan terms with respect to minimum vesting, revised the “fungible share” ratio, and added a director limit on annual equity awards, but did not increase the number of Shares available under the 2015 Plan. At our 2016 annual meeting held in May 2016, our stockholders approved the amendment and restatement of the 2015 Plan.

As described in more detail below, the initial Share reserve under the 2015 Plan was 108 million Shares.

#### SHARES AVAILABLE FOR FUTURE AWARDS

As of April 3, 2018, approximately 34,172,172 Shares remained available for grant under the 2015 Plan. The Board believes that additional Shares are necessary to meet the Company’s anticipated equity compensation needs. Following the proposed Share increase, we expect that Shares under the 2015 Plan will last approximately three to four years. This estimate is based on a forecast that takes into account our anticipated hiring needs and an estimated range of our stock price over time.

#### REASONS FOR VOTING FOR THE PROPOSAL

##### Long-Term Equity is a Key Component of our Compensation Objective

Our comprehensive equity incentive program is designed to enable the Company to attract, retain and reward our employees, non-employee directors and other persons providing services to the Company and its subsidiaries. The Board also believes that equity compensation is essential to link executive compensation with long-term stockholder value creation. Equity compensation represents a significant portion of the compensation package for our key employees. Since our equity awards generally vest over several years, the value ultimately realized from these awards depends on the value of our Shares at the time of vesting. We strongly believe that granting equity awards motivates employees to think and act like owners, rewarding them when value is created for stockholders.



### We Manage Our Equity Incentive Program Thoughtfully

We manage our long-term stockholder dilution by closely managing the number of equity awards granted annually. We grant what we believe is an appropriate amount of equity necessary to attract, reward and retain employees. Our three-year average burn rate, which we define as the number of Shares subject to equity awards granted under the 2015 Plan in a fiscal year divided by the weighted average Shares outstanding for that fiscal year, was 1.45% for fiscal years 2015 through 2017.

As of April 3, 2018, equity awards outstanding under our equity plans were approximately: 1,469,694 stock options, 0 restricted shares, 25,706,529 restricted stock units and 4,322,547 performance-based restricted stock units (at target). An additional 426,922 stock options, 164,053 restricted stock units, and 46 unvested restricted shares were outstanding under equity awards that had been assumed in connection with mergers and other corporate transactions as of April 3, 2018. As of April 3, 2018, we had 1,187,180,992 Shares outstanding. Accordingly, excluding our employee stock purchase plan, our approximately 32,074,690 outstanding shares underlying awards (not including awards under our employee stock purchase plan) plus approximately 34,172,172 Shares available for future grant under our equity plans as of April 3, 2018 represented approximately 6% of our Shares outstanding (commonly referred to as the “overhang”).

As of April 3, 2018, the average weighted per share exercise price of all outstanding stock options (whether granted under our equity plans or assumed in connection with corporate transactions) was \$29.4110 and the weighted average remaining contractual term was 4.06 years.

### The 2015 Plan Incorporates Good Compensation and Governance Practices

- **Administration.** The 2015 Plan is administered by the Compensation Committee of the Board, which is comprised entirely of independent non-employee directors.
- **Minimum vesting for equity awards.** The 2015 Plan provides that no portion of any award granted under the 2015 Plan following the Annual Meeting may vest before the one-year anniversary of the date of grant. The foregoing is subject to a 5% carve-out, as discussed in further detail below.
- **Stockholder approval is required for additional Shares.** The 2015 Plan does not contain an annual “evergreen” provision but instead reserves a fixed maximum number of Shares for issuance. Stockholder approval is required to increase that number.
- **Explicit prohibition on repricing without stockholder approval.** The 2015 Plan prohibits the repricing, cash-out or other exchange of underwater stock options and stock appreciation rights without prior stockholder approval.
- **No discounted stock options or stock appreciation rights.** The 2015 Plan requires that stock options and stock appreciation rights issued under it must have an exercise price equal to at least the fair market value of a Share on the date the award is granted, except in certain situations in which we are assuming or replacing options granted by another company that we are acquiring.
- **No dividends paid on awards prior to vest and no dividend equivalents on options or stock appreciation rights.** The 2015 Plan provides that dividends credited or payable or dividend equivalents in connection with any award granted under the 2015 Plan are subject to the same restrictions as the underlying award and will not be paid until the underlying award vests. Further, no dividend equivalents are payable with respect to options or stock appreciation rights.
- **Share counting provisions.** In general, when awards granted under the 2015 Plan expire or are canceled without having been fully exercised, or are settled in cash, the Shares reserved for those awards are returned to the Share reserve and become available for future awards. If Shares are tendered to us or withheld by us to satisfy an award’s tax withholding obligations or pay a stock option’s or stock appreciation right’s exercise price, those Shares do not become available for future awards.
- **Full-value awards count more heavily in reducing the 2015 Plan share reserve.** The 2015 Plan uses a “fungible share” concept, under which stock options and stock appreciation rights reduce the Share reserve on a 0.5 for 1 basis, and full-value awards, such as restricted stock, restricted stock units, performance units, and performance shares reduce the Share reserve on a one for one basis.
- **Limited transferability.** In general, awards may not be sold, assigned, transferred, pledged or otherwise encumbered, either voluntarily or by operation of law, unless otherwise approved by the Board or a committee of the Board administering the 2015 Plan.
- **Annual limits on non-employee director awards.** The 2015 Plan limits the value of equity that may be granted under non-employee director awards each fiscal year.
- **No tax gross-ups.** The 2015 Plan does not provide for any tax gross-ups.

### Summary of the 2015 Plan

The following is a summary of the operation and principal features of the 2015 Plan. The summary is qualified in its entirety by the 2015 Plan as set forth in Appendix A.

#### PURPOSE

The Compensation Committee and the Board believe that it is in the best interests of the Company and its stockholders to provide, through the 2015 Plan, a comprehensive equity incentive program designed to enable the Company to attract, retain and reward employees, non-employee directors and other persons providing services to the Company. The Board also believes that equity compensation is essential to link executive compensation with long-term stockholder value creation. Equity compensation

represents a significant portion of the compensation package for our key employees. We strongly believe that granting equity awards motivates employees to think and act like owners, rewarding them when value is created for stockholders.

## AUTHORIZED SHARES

Under the 2015 Plan, 108 million Shares are authorized for issuance. We are asking our stockholders to approve an additional 37 million Shares to be available for issuance under the 2015 Plan, which will increase the aggregate authorized number of Shares authorized under the 2015 Plan to 145 million. As of April 3, 2018, we had approximately 34,172,172 Shares available for issuance under the 2015 Plan. The closing price of a Share on NASDAQ on April 3, 2018 was \$74.56 per share.

## SHARE RESERVE REDUCTION AND SHARE RECYCLING

Any Shares subject to stock options or stock appreciation rights are counted against the 2015 Plan Share reserve as 0.5 Share for every one Share subject to the award. Any Shares subject to awards granted under the 2015 Plan other than options or stock appreciation rights (i.e., full value awards, including restricted stock, restricted stock units, performance units, and performance shares) are counted against the 2015 Plan Share reserve as one Share for every one Share subject thereto.

If any award granted under the 2015 Plan expires or becomes unexercisable without having been exercised in full, is surrendered, or is forfeited to or repurchased by the Company due to failure to vest, the unpurchased or forfeited or repurchased Shares subject to such award become available for future grant or sale under the 2015 Plan.

Shares used to satisfy tax withholding obligations relating to an award or pay the exercise price or purchase price of an option or stock appreciation right do not become available for future issuance under the 2015 Plan.

## ADJUSTMENTS TO SHARES SUBJECT TO THE 2015 PLAN

Certain transactions with our stockholders not involving our receipt of consideration, such as a stock split, spin-off, stock dividend, or certain recapitalizations, may affect the price of our Shares (these transactions are referred to collectively as “equity restructurings”). In the event that an equity restructuring occurs, the Compensation Committee or the Board will equitably adjust the class of shares issuable and the maximum number of shares of our stock subject to the 2015 Plan, as well as the maximum number of shares that may be issued to an employee during any calendar year, and will equitably adjust outstanding awards as to the class, number of shares, and price per share of our stock. Other types of transactions may also affect our Shares, such as a dividend or other distribution, reorganization, merger, or other changes in corporate structure. In the event that there is such a transaction, which is not an equity restructuring, and the Compensation Committee or the Board determines that an adjustment to the plan and any outstanding awards would be appropriate to prevent any dilution or enlargement of benefits under the 2015 Plan, the Compensation Committee or the Board will equitably adjust the 2015 Plan as to the class of shares issuable and the maximum number of shares of our stock subject to the 2015 Plan, as well as the maximum number of shares that may be issued to an employee during any calendar year, and will adjust any outstanding awards as to the class, number of shares, and price per share of our stock in such manner as it may deem equitable.

## ADMINISTRATION

The Compensation Committee has the exclusive authority to administer the 2015 Plan, including the power to determine eligibility, the types and sizes of awards, the price and timing of awards, the acceleration or waiver of any vesting restriction, and the authority to delegate such administrative responsibilities.

To the extent permitted by applicable law, the Compensation Committee may delegate to a committee of one or more of our directors or one or more of our officers the authority to grant or amend awards to participants other than our senior executives who are subject to Section 16 of the Exchange Act. Pursuant to this provision, our Compensation Committee’s current practice is to delegate to our Chief Executive Officer, as a member of the Board, the authority to determine and make individual grants to our employees who are not subject to Section 16 of the Exchange Act. Unless otherwise determined by the Board, the Compensation Committee shall consist solely of two or more members of the Board, each of whom is a non-employee director under the Exchange Act, and an “independent director” under the rules of NASDAQ (or other principal securities market on which shares of our common stock are traded).

## ELIGIBILITY

Awards may be granted to employees, directors and consultants of the Company and employees and consultants of any subsidiary of the Company. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any subsidiary corporation of the Company. As of April 3, 2018, there were approximately 19,000 employees, including seven executive officers and ten non-employee directors eligible to be granted awards under the 2015 Plan. While consultants to the Company are eligible to participate in the 2015 Plan, the Company’s current practice is to not grant equity awards to consultants, except in certain limited cases.



## STOCK OPTIONS

Stock options, including incentive stock options as defined under IRC Section 422 and non-qualified stock options, may be granted pursuant to the 2015 Plan. The option exercise price of all stock options granted pursuant to the 2015 Plan will not be less than 100% of the fair market value of a Share on the date of grant. Stock options may be exercised as determined by the Compensation Committee, but in no event may a stock option have a term extending beyond ten years from the date of grant.

Incentive stock options granted to any person who owns, as of the date of grant, stock possessing more than ten percent of the total combined voting power of all classes of our stock, however, will have an exercise price that is not less than 110% of the fair market value of a Share on the date of grant and may not have a term extending beyond the fifth anniversary of the date of grant. The aggregate fair market value of a Share with respect to which options intended to be incentive stock options are exercisable for the first time by an employee in any calendar year may not exceed \$100,000 or such other amount as the IRC provides.

The Compensation Committee determines the methods by which an option holder may pay the exercise price of an option or the related taxes, including, without limitation: (1) cash, (2) Shares (including, in the case of payment of the exercise price of an award, Shares issuable pursuant to the exercise of the award) having a fair market value on the date of delivery equal to the aggregate payments required, or (3) other property acceptable to the Compensation Committee (including through the delivery of a notice that the award holder has placed a market sell order with a broker with respect to Shares then issuable upon exercise or vesting of an award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to us in satisfaction of the aggregate payments required; provided that payment of such proceeds is then made to us upon settlement of that sale). However, no participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act will be permitted to pay the exercise price of an option in any method which would violate the prohibitions on loans made or arranged by us as set forth in Section 13(k) of the Exchange Act.

## RESTRICTED STOCK AWARDS

Restricted stock may be granted pursuant to the 2015 Plan. A restricted stock award is the grant of Shares at a price determined by the Compensation Committee, that is nontransferable and may be subject to substantial risk of forfeiture until specific conditions are met. Conditions may be based on continuing employment or achieving performance goals. During the period of restriction, participants holding shares of restricted stock may have full voting and dividend rights with respect to such shares; provided, however, that any dividends will be subject to the same vesting conditions as the underlying shares of restricted stock. The restrictions will lapse in accordance with a schedule or other conditions determined by the Compensation Committee.

## RESTRICTED STOCK UNITS

Restricted stock units ("RSUs") may be granted pursuant to the 2015 Plan. An RSU award provides for the issuance of common stock at a future date upon the satisfaction of specific performance conditions as set forth in the applicable award agreement and/or subject to continuing employment as set forth in the applicable award agreement. The vesting and maturity dates will be established at the time of grant and may provide for the deferral of receipt of the common stock beyond the vesting date. On or following the maturity date, we will transfer to the participant one unrestricted, fully transferable share of common stock for each RSU scheduled to be paid out and not previously forfeited (subject to applicable tax withholding requirements).

## STOCK APPRECIATION RIGHTS

Stock appreciation rights ("SARs") may be granted pursuant to the 2015 Plan. The exercise price of all SARs granted pursuant to the 2015 Plan will not be less than 100% of the fair market value of a Share on the date of grant. SARs may be exercised as determined by the Compensation Committee, but in no event may an SAR have a term extending beyond ten years from the date of grant.

## ADDITIONAL AWARDS

The other types of equity awards that may be granted under the 2015 Plan include performance share units, performance shares, deferred stock units, dividend equivalents, and other stock-based awards. Notwithstanding anything in the 2015 Plan to the contrary, dividend equivalents will be subject to the same vesting conditions as the underlying awards to which the dividend equivalents relate. No dividend equivalents may be payable with respect to stock options or SARs.

## PERFORMANCE BONUS AWARDS

Performance bonus awards may be granted pursuant to the 2015 Plan. Performance bonus awards are cash bonuses payable upon the attainment of pre-established performance goals based on established performance criteria. The goals are established and evaluated by the Compensation Committee and may relate to performance over any periods as determined by the Compensation Committee.

## PERFORMANCE-BASED AWARDS

The Compensation Committee may grant performance-based awards under the 2015 Plan. Under the 2015 Plan, these performance-based awards may be either equity awards or performance bonus awards. Participants are entitled to receive payment for a performance-based award for any given performance period only to the extent that pre-established performance goals set by the Compensation Committee for the period are satisfied.

Pre-established performance goals may include, without limitation, any one or more of the following types of performance criteria:

- trading volume;
- users;
- customers;
- total payment volume;
- revenue;
- operating income;
- EBITDA and/or net earnings (either before or after interest, taxes, depreciation and amortization);
- net income (either before or after taxes);
- earnings per share;
- earnings as determined other than pursuant to GAAP;
- multiples of price to earnings;
- multiples of price/earnings to growth;
- return on net assets;
- return on gross assets;
- return on equity;
- return on invested capital;
- stock price;
- cash flow (including operating cash flow and free cash flow);
- net or operating margins;
- economic profit;
- stock price appreciation;
- total stockholder returns;
- employee productivity;
- market share;
- volume;
- customer satisfaction metrics;
- net sales;
- expense levels;
- regulatory achievements (including submitting or filing applications or other documents with regulatory authorities or receiving approval of any such applications or other documents, passing pre-approval inspections (whether of the Company or third parties));
- gross or cash margins;
- sales or licenses of the Company's assets, including its intellectual property, whether in a particular jurisdiction or territory or globally, or through partnering transactions;
- implementation, completion or attainment of objectives with respect to research, development, commercialization, products or projects, production volume levels, acquisitions and divestitures and recruiting and maintaining personnel;
- financing and other capital raising transactions (including sales of the Company's equity or debt securities, factoring transactions);
- product revenue growth;
- gross profit;
- financial ratios, including those measuring liquidity, activity, profitability or leverage, cost of capital or assets under management;
- strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property, establishing relationships with commercial entities with respect to the marketing, distribution and sale of the Company's products (including with group purchasing organizations, distributors and other vendors);
- co-development, co-marketing, profit sharing, joint venture or other similar arrangements;
- economic value-added models or equivalent metrics;
- debt reduction;
- reductions in costs;
- year-end cash;
- working capital levels, including cash, inventory and accounts receivable;
- research and development achievements;
- operating efficiencies; and
- employee engagement/satisfaction metrics.

Any of the above criteria may be measured with respect to us, or any subsidiary, affiliate, or other business unit of ours, either in absolute terms, terms of growth, or as compared to any incremental increase and as compared to results of a peer group, and may be calculated on a pro forma basis or in accordance with GAAP. The Compensation Committee defines the manner of calculating the performance criteria it selects to use for such awards. With regard to a particular performance period, the Compensation Committee will have the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. Unless otherwise provided in an award agreement, a participant will have to be employed by or providing services to the Company on the date the performance-based award is paid to be eligible for a performance-based award for any period.

#### **LIMITATIONS ON AWARDS TO INDIVIDUAL PARTICIPANTS**

The maximum number of Shares that may be subject to one or more awards granted to any one participant pursuant to the 2015 Plan during any calendar year is 2,000,000 Shares, and the maximum amount that may be paid in cash to any employee during any calendar year with respect to any performance-based award is \$3 million. The maximum value of awards granted to non-employee directors pursuant to the 2015 Plan during any fiscal year is \$600,000; provided, however, that the limit set forth in this sentence is increased to \$1,200,000 in the fiscal year in which a non-employee director commences service on the Board and the limit does not apply to awards made pursuant to a non-employee director's election to receive an award in lieu of all or a portion of a cash retainer for service on the Board or any committee thereunder or pursuant to a conversion of an eBay award to a Company award.

#### **PROHIBITION ON REPRICING**

Except for adjustments described in "Adjustments to Shares Subject to the 2015 Plan" above, the Compensation Committee will not, without stockholder approval, authorize the amendment of any outstanding award to reduce its purchase price per share, the replacement or substitution of any award for an award having a lesser purchase price per share, or an offer to purchase any previously granted option or stock appreciation right for a payment in cash when the per share exercise price exceeds the Fair Market Value of the underlying share.

## MINIMUM VESTING

Subject to the acceleration of vesting as permitted under the terms of the 2015 Plan, effective as of the Annual Meeting, no portion of any award granted under the 2015 Plan shall vest before the one-year anniversary of the date of grant, except that awards that result in the issuance to one or more participants of up to 5% of the shares of common stock which may be issued or transferred under the 2015 Plan may be granted without regard to such minimum vesting provisions.

## AWARDS SUBJECT TO CLAWBACK

Any incentive awards granted under the 2015 Plan, and any cash or property delivered pursuant to incentive awards, are subject to forfeiture, recovery, or other action by PayPal as necessary for compliance with any Company policy or as required by law.

## TRANSFERABILITY OF AWARDS

Awards granted under the 2015 Plan generally are not transferable, and all rights with respect to an award granted to a participant generally will be available during a participant's lifetime only to the participant (or the participant's guardian or legal representative).

## CHANGE IN CONTROL

A "change in control" generally means a transaction in which any person or group acquires more than 50% of our voting securities, a change in a majority of the Board over a two-year period that is not approved by at least two-thirds of the incumbent Board members, a sale or other disposition of all or substantially all of our assets, a merger or consolidation in which we are not the surviving corporation, or a reverse merger in which we are the surviving corporation but the shares of our stock outstanding immediately preceding the merger are converted by virtue of the merger into other property or the Company's stockholders approval of a liquidation or dissolution of the Company.

Outstanding awards do not automatically terminate in the event of a change in control. In the event of a change in control, any surviving corporation or acquiring corporation must either assume or continue outstanding awards or substitute similar awards. If it does not do so, the vesting of such awards (and, if applicable, the time during which such awards may be exercised) will be accelerated in full and all forfeiture restrictions on such awards shall lapse. The unexercised portion of all outstanding awards may terminate upon the change in control.

If a change in control occurs during a performance period with respect to an outstanding award that vests based on performance goals or other performance-based objectives, the performance period of the award will end as of the date of the change in control and the performance goals will be deemed to have been satisfied at the actual level of performance as of the date of the change in control, as determined by the Compensation Committee, as constituted immediately prior to the change in control, without proration, and such award, to the extent deemed earned by the Compensation Committee will continue to be subject to time-based vesting following the change in control in accordance with the original vesting schedule; provided, however, that if the awards are not converted, assumed or replaced by a successor entity, then immediately prior to the change in control, such award will become fully vested, as described in the paragraph above.

## TERMINATION OR AMENDMENT

The 2015 Plan will automatically terminate ten years from the Effective Date (defined as the date the 2015 Plan is last approved by the Company's stockholders), unless terminated at an earlier time by the Administrator. The Administrator may terminate or amend the 2015 Plan at any time, subject to stockholder approval for any amendment (i) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, (ii) to increase the number of shares available under the 2015 Plan, (iii) to permit the Compensation Committee or the Board to grant options with a price below fair market value on the date of grant, or (iv) to extend the exercise period for an option or stock appreciation right beyond ten years from the date of grant. No termination or amendment may adversely affect in any material respect any Award previously granted pursuant to the 2015 Plan without the prior written consent of the participant.

## Summary of U.S. Federal Income Tax Consequences

The following is a general summary under current law of the material federal income tax consequences to participants in the 2015 Plan under U.S. law. This summary deals with the general tax principles that apply and is provided only for general information. Certain types of taxes, such as state and local income taxes and taxes imposed by jurisdictions outside the U.S., are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The summary does not discuss all aspects of income taxation that may be relevant to a participant in light of his or her personal investment circumstances. This summarized tax information is not tax advice.

## SECTION 162(M) OF THE CODE

Section 162(m) of the Code generally limits to \$1 million the amount that a publicly held corporation is allowed each year to deduct for the compensation paid to the corporation's chief executive officer, chief financial officer and certain of the corporation's current and former executive officers.

## STOCK OPTIONS

A participant will not recognize taxable income at the time an option is granted and the Company will not be entitled to a tax deduction at that time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) upon exercise of a nonqualified stock option equal to the excess of the fair market value of the shares purchased over their purchase price, and the Company will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply. A participant will not recognize income (except for purposes of the alternative minimum tax) upon exercise of an incentive stock option. If the shares acquired by exercise of an incentive stock option are held for at least two years from the date the option was granted and one year from the date it was exercised, any gain or loss arising from a subsequent disposition of those shares will be taxed as long-term capital gain or loss, and the Company will not be entitled to any deduction. If, however, such shares are disposed of within the above-described period, then in the year of that disposition the participant will recognize compensation taxable as ordinary income equal to the excess of the lesser of (i) the amount realized upon that disposition, and (ii) the excess of the fair market value of those shares on the date of exercise over the purchase price, and the Company will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply.

## STOCK APPRECIATION RIGHTS

A participant will not recognize taxable income at the time SARs are granted and the Company will not be entitled to a tax deduction at that time. Upon exercise, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) in an amount equal to the fair market value of any Shares delivered and the amount of cash paid by the Company. This amount is deductible by the Company as compensation expense, except to the extent the deduction limits of Section 162(m) of the Code apply.

## STOCK AWARDS

A participant will not recognize taxable income at the time restricted stock is granted and the Company will not be entitled to a tax deduction at that time, unless the participant makes an election to be taxed at that time. If such election is made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time of the grant in an amount equal to the excess of the fair market value for the Shares at such time over the amount, if any, paid for those Shares. If such election is not made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time the restrictions constituting a substantial risk of forfeiture lapse in an amount equal to the excess of the fair market value of the Shares at such time over the amount, if any, paid for those Shares. The amount of ordinary income recognized by making the above-described election or upon the lapse of restrictions is deductible by the Company as compensation expense, except to the extent the deduction limits of Section 162(m) of the Code apply.

A participant will not recognize taxable income at the time a RSU is granted and the Company will not be entitled to a tax deduction at that time. Upon settlement of RSUs, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) in an amount equal to the fair market value of any Shares delivered and the amount of any cash paid by the Company. The amount of ordinary income recognized is deductible by the Company as compensation expense, except to the extent the deduction limits of Section 162(m) of the Code apply.

The tax consequences for equity awards outside of the U.S. may differ significantly from the U.S. federal income tax consequences described above.

## Number of Awards Granted to Employees, Directors, and Consultants

The Company's NEOs and members of the Board will be eligible to receive grants under the 2015 Plan and therefore have an interest in this Proposal.

Because grants under the 2015 Plan to participants are within the discretion of the Compensation Committee (or its delegate), it is not possible to determine the grants that will be made to participants under the 2015 Plan.

The 2015 Plan authorizes the grant of discretionary awards to non-employee directors, the terms and conditions of which are determined by the Compensation Committee. Historically, our non-employee directors have received annual equity grants under our equity incentive plans. Under our current Independent Director Compensation Policy, our non-employee directors receive annual equity grants promptly following the date of each annual stockholders meeting in the form of fully vested stock payment awards with a dollar value equal to \$275,000, and with respect to the Chairman of the Board, an additional fully vested stock payment award that has a dollar value equal to \$100,000. In addition, our non-employee directors may elect to receive their annual retainers in the form of fully vested stock awards.

The following table sets forth information with respect to the number of Shares subject to equity awards previously granted under the 2015 Plan since its inception through April 3, 2018 for certain individuals:

Name of Individual or Group	Number of Options Granted (#)	Number of Shares Subject to Stock Awards* (#)
2017 NEOs:		
Daniel H. Schulman	337,483	1,940,558
John Rainey	87,390	593,759
Gary J. Marino	218,395	424,635
A. Louise Pentland	48,899	519,559
William J. Ready	32,275	1,960,696
Current Director Nominees**:		
Rodney C. Adkins	—	3,046
Wences Casares	—	14,337
Jonathan Christodoro	—	15,927
John J. Donahoe	1,640,217	552,614
David W. Dorman	—	27,450
Belinda J. Johnson	—	7,232
Gail J. McGovern	—	14,285
David M. Moffett	29,985	65,128
Ann M. Sarnoff	—	6,645
Frank D. Yearly	—	17,389
All current executive officers as a group	805,940	6,092,155
All current non-employee directors as a group	1,670,202	724,053
Associate of any such directors, executive officers or nominees	—	—
Other persons who received or is to receive 5% of such options or rights	—	—
All employees as a group (excluding executive officers)	6,658,518	71,026,726

\* Reflects shares subject to DSUs, RSUs and target shares of PBRsUs with ongoing performance periods.

\*\* Does not include Mr. Schulman, listed above as a 2017 NEO.

The Board of Directors Recommends a Vote **FOR** Proposal 3.

Proxy Statement

## Proposal 4 — Approval of the Amended and Restated Employee Stock Purchase Plan

Our Employee Stock Purchase Plan, as amended (the “ESPP” or “Purchase Plan”), is a benefit that we make broadly available to our employees and employees of our participating subsidiaries and affiliates that allows them to purchase Shares at a discount. The ESPP helps us attract, motivate and retain highly qualified employees and promotes employee stock ownership, which aligns employees’ interests with those of our stockholders. We are asking stockholders to approve the amended and restated ESPP primarily to increase the number of Shares reserved for issuance under the ESPP by 50 million. The Board, upon the recommendation of the Compensation Committee, has approved the amended and restated ESPP, subject to stockholder approval at the Annual Meeting.

If our stockholders approve this proposal, the total number of Shares authorized and reserved for issuance under the ESPP will be 62 million Shares. However, if this proposal is not approved by our stockholders, the total number of Shares authorized and reserved for issuance under the ESPP will remain at 12 million, of which approximately 5 million remain available for issuance as of April 3, 2018. Based on our current forecasts and estimated participation rates, if the increase is not approved, we expect that the ESPP will run out of available Shares in approximately one year.

We believe that the ESPP is an essential tool that helps us compete for talent in the labor markets in which we operate. We also believe the ESPP is a crucial element in rewarding and encouraging current employees that promotes stock ownership by employees, which aligns their interests with those of our stockholders. Without stockholder approval of this proposal, we believe our ability to attract and retain talent would be hampered, and our recruiting, retention, and incentive efforts would become more difficult.

### Background and Overview of the ESPP

The ESPP was initially adopted by the Board in June 2015, and became effective upon the completion of the Separation.

Under the ESPP, a participant may authorize participant contributions, generally in the form of payroll deductions, which may not exceed 10% of the participant’s eligible compensation during an offering period. Payroll deductions are applied on the last day of a purchase period (the “purchase date”) within an offering period to purchase a whole number of Shares on behalf of a participant. The purchase price is 85% of the fair market value of a Share on the first day of the offering period or on the purchase date, whichever date results in a lower price.

### Reasons for Voting for the Proposal

The Board believes that it is in the best interests of the Company and its stockholders to continue to provide employees with the opportunity to acquire an ownership interest in the Company through their participation in the ESPP and thereby encourage them to remain in the employ of the Company (including its participating subsidiaries and affiliates) and more closely align their interests with those of our stockholders. We believe that the number of Shares remaining available for issuance under the ESPP will not be sufficient in light of the expected levels of ongoing participation in the ESPP. Accordingly, we are asking stockholders to approve increasing the number of Shares available under the ESPP to help the Company meet the goals of its compensation strategy.

In considering its recommendation to seek stockholder approval for the addition of 50 million Shares to the ESPP, the Board considered the historical number of Shares purchased under the ESPP since Separation. The Board also considered the Company’s expectation that the additional Shares should last approximately ten years. However, the additional Shares could last for a longer or shorter period of time based on various factors which cannot be predicted, including the growth of our employee population, future ESPP offering practices, our stock price and prevailing market conditions. In the event that more Shares are required for the ESPP in the future, prior stockholder approval will be required.

### Material Changes to the ESPP

As noted above, the number of Shares reserved for issuance under the ESPP has been increased by 50 million Shares to 62 million Shares. The amendment and restatement of the ESPP also includes other administrative, clarifying, and conforming changes.

### Summary of the ESPP

The following paragraphs provide a summary of the principal features of the ESPP and its operation. This summary is not a complete description of all of the provisions of the ESPP, and is qualified in its entirety by reference to the full text of the ESPP, which is provided as Appendix B to this proxy statement.

#### PURPOSE

The purpose of the ESPP is to provide employees with a convenient means of acquiring an equity interest in the Company through payroll deductions or other contributions to enhance such employees’ sense of participation in the affairs of the Company. We believe that the ESPP advances the interests of the Company and its stockholders by providing an incentive to attract, retain and reward eligible employees and by motivating such employees to contribute to the growth and profitability of the Company and its subsidiaries and affiliates. The ESPP provides eligible employees with the opportunity to acquire an equity interest in the Company through the purchase of Shares. The ESPP includes two components. The first component, which we refer to as the 423 component, is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code (the



"Code") and generally covers our U.S. employees. The second component, which we refer to as the non-423 component, is not intended to qualify under Section 423 of the Code, and generally covers certain of our non-U.S. employees.

## ELIGIBILITY TO PARTICIPATE

Our employees and the employees of our participating subsidiaries and affiliates that have been employed for at least ten business days and who meet the other requirements established by the Administrator (as defined below) prior to the applicable offering period are eligible to participate in the ESPP, effective as of the first day of the first offering period for which they are eligible. No employee is eligible to participate if he or she owns stock or holds options, (or would as a result of ESPP participation own stock or hold options), to purchase five percent or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary corporation of the Company.

In its discretion, the Administrator may determine that certain employees or categories of employees will not be eligible to participate in the ESPP, which authority will be exercised in accordance with the requirements of Code Section 423 of the Code for rights granted under the 423 component.

As of April 3, 2018, approximately 19,000 employees, including seven executive officers, were eligible to participate in the ESPP. Non-employee directors and consultants are not eligible to participate in the ESPP.

## NUMBER OF SHARES AND MARKET PRICE OF SHARES AVAILABLE UNDER THE ESPP

A total of 12 million Shares were initially authorized and reserved for issuance under the ESPP. If stockholders approve this proposal, the total number of Shares authorized and reserved for issuance under the ESPP will be 62 million Shares. The number of Shares is subject to adjustment in the case of certain corporate transactions, as described below. As of April 3, 2018, the closing price of a Share on NASDAQ was \$74.56 per Share.

## ADMINISTRATION

The Compensation Committee of the Board is responsible for administering the ESPP (the "Administrator"), but is authorized to delegate its duties and authority to officers and employees of the Company, as appropriate. In its sole discretion, the Board may administer the ESPP. The Administrator will have, among other authority, the authority to interpret the ESPP, to determine eligibility and adjudicate disputed claims under the ESPP, to determine the terms and conditions of offerings and rights under the ESPP, and to make any other determination and take any other action desirable for the administration of the ESPP. Additionally, the Administrator is authorized to adopt, amend and rescind rules or procedures relating to the administration of the ESPP to accommodate the specific requirements of local laws and procedures. The Administrator may also adopt sub-plans applicable to particular participating subsidiaries and affiliates, which may be designed to be outside the scope of Section 423 of the Code and which may have terms different to those of the ESPP other than with respect to the number of Shares reserved under the ESPP. All determinations and decisions by the Administrator regarding the interpretation or application of the ESPP are final and binding on all ESPP participants.

## ENROLLMENT AND CONTRIBUTIONS

Eligible employees voluntarily elect whether or not to enroll in the ESPP by completing, signing and submitting to the Company an enrollment form in a form and manner and by the deadline set by the Administrator. Each employee who joins the ESPP (a "participant") is granted a right to purchase Shares on the first day of each applicable offering period (the "offering date") while participating in the ESPP and, as long as he or she has not withdrawn from participation (including by reducing his or her contributions down to 0%, as described below) or terminated employment or eligibility, automatically is re-enrolled in the subsequent offering period. An employee may cancel his or her enrollment in an offering period at any time (subject to ESPP rules, as outlined below under "Termination of Participation").

Participants contribute to the ESPP through payroll deductions or, if permitted by the Administrator, through other means specified by the Administrator. Currently, contributions are permitted only through payroll deductions. Participants generally may contribute a minimum of 2% and up to a maximum of 10% of their eligible compensation through after-tax payroll deductions. Compensation for purposes of the ESPP includes the following forms of cash compensation paid to or earned by an employee: base wages, salary, overtime, performance or merit bonuses, commissions, shift differentials, language differentials, payments for paid time off and holidays, sabbatical pay, payments in lieu of notice, travel pay, retroactive pay, on-call/standby pay, hazard pay, bereavement pay, jury/witness duty pay, pay during a period of suspension, military leave pay, compensation deferred pursuant to Section 401(k) or Section 125 of the Code, distributions under any nonqualified deferred compensation plan, retention bonuses and any other compensation or remuneration that the Administrator approves as "compensation" in accordance with Section 423 of the Code.

During an offering period, a participant may increase or decrease his or her contribution percentage, including to 0%, by following procedures established by the Administrator, but only one such change can take effect during any purchase period. If a participant reduces his or her contribution percentage to 0% during an offering period and does not increase such rate above 0% prior to the start of the next purchase period within that offering period (or, if none, prior to the start of the next subsequent offering period), the participant will be withdrawn from the ESPP, unless the participant is on a bona fide leave of absence.

From time to time, the Administrator may establish a lower maximum permitted contribution percentage, change the definition of eligible compensation, limit the nature or number of contribution rate changes that may be made during an offering period or purchase period, adopt other rules regarding participation in the ESPP, or change the length of the offering and purchase periods (but in no event may such periods exceed 27 months).

## OFFERING PERIOD AND PURCHASE PERIODS

Under the 423 component of the ESPP, an offering period lasts for 24 months, comprised of four six-month purchase periods. Purchases will be made four times during each offering period on the last trading day of each purchase period, and the dates of such purchases are referred to as “purchase dates.” A new purchase period will begin the day after a purchase date. A new 24-month offering period will commence on each May 1st and November 1st during the term of the ESPP. Offering periods under the non-423 component of the ESPP may have a different duration, currently six months and consisting of a single six-month purchase period, but subject to change by the Administrator. Purchases will be made on the last trading day of the purchase period, and a new offering period and purchase period will begin the day after a purchase date. The Administrator may change the frequency and duration of offering periods and purchase dates under the ESPP, for offerings under either the 423 component or the non-423 component.

If the fair market value per share of our common stock on any purchase date in the 423 component of the ESPP is less than the fair market value per share on the start date of a 24-month offering period, then that offering period will automatically terminate, a new 24-month offering period will begin on the next day after the purchase date, and all participants participating in such original offering period will be automatically enrolled in such new offering period.

## PURCHASE OF SHARES

Employees electing to participate in the ESPP will authorize us to automatically deduct after-tax dollars from each compensation payment during an offering period until the employee instructs us to stop the deductions or the employee’s employment is terminated. Participants’ accumulated deductions will be applied to the purchase of whole shares on each semi-annual purchase date.

The purchase price per share will be equal to 85% of the fair market value per share on the participant’s entry date into the offering period or, if lower, 85% of the fair market value per share on the purchase date.

The number of Shares that a participant is able to purchase is limited so that no participant has the right to purchase our common stock under the ESPP and all similar purchase plans maintained by us or our subsidiaries at a rate which exceeds \$25,000 of the fair market value of such stock (determined at the time the right is granted) for each calendar year that a right granted to the participant is outstanding at any time. In addition, no participant may purchase more than 5,000 Shares on any purchase date, or such other maximum Share amount as may be set by the Administrator, subject to adjustment in the case of certain corporate transactions, as described below.

## TERMINATION OF PARTICIPATION

Participation in the ESPP generally terminates when a participating employee’s employment with the Company or its participating subsidiaries and affiliates ceases for any reason, the employee withdraws from the ESPP (including by reducing his or her contribution rate to 0%, as described above), or the Company terminates or amends the ESPP such that the employee no longer is eligible to participate. Also, although the Administrator may establish other rules, the ESPP provides that a participant’s transfer of employment from an entity participating in the 423 component of the ESPP to an entity participating in the non-423 component, or vice versa, will result in a termination of the participant’s participation in the ESPP as of the date of his or her transfer. Employees may end their participation in an offering at any time at least 15 business days before a purchase date, or within such other time frame established by the Administrator. Upon withdrawal from the ESPP, generally the employee will receive the refund of any remaining amounts not used to purchase Shares that have been credited to his or her account, without interest (unless otherwise required by applicable law), and his or her payroll withholdings or contributions under the ESPP will cease.

## NON-TRANSFERABILITY

Rights to purchase Shares and any other rights and interests under the ESPP may not be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution. A right to purchase shares under the ESPP is exercisable during the lifetime of a participant only by the participant.

## ADJUSTMENTS; CERTAIN TRANSACTIONS

Certain transactions with our stockholders not involving our receipt of consideration, such as a stock split, spin-off, stock dividend, or certain recapitalizations, may affect the share price of our common stock. We refer to these transactions as equity restructurings. In the event that an equity restructuring occurs, the Administrator will equitably adjust the class of shares issuable and the maximum number of shares of our stock subject to the ESPP, and will equitably adjust any rights outstanding as to the class, number of shares and price per share of our stock. Other types of transactions may also affect our common stock, such as a dividend or other distribution, reorganization, merger, or other changes in corporate structure. In the event that there is such a transaction that is not an equity restructuring, and the Administrator determines that an adjustment to the ESPP and any rights outstanding would be appropriate to prevent any dilution or enlargement of benefits under the ESPP, the Administrator will equitably adjust the ESPP as to the class or type of shares issuable and the maximum number of shares of our stock subject to the ESPP, as well as the maximum number of shares that may be purchased by an employee, and will adjust any rights outstanding as to the class or type and number of shares and price per share of our stock in such manner as it may deem equitable.

In the event we merge with or into another corporation in which we do not survive (or we survive but our stockholders cease to own our shares); sell all or substantially all of our assets; or more than 50% of our shares are acquired, sold or transferred in a tender offer or similar transaction, the outstanding rights under the ESPP will continue unless otherwise provided by the Administrator.



In the event of our proposed dissolution or liquidation, the offering period then in progress will be shortened by setting a new purchase date, and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless the Administrator provides otherwise in its sole discretion.

## AMENDMENT AND TERMINATION

The Administrator generally may amend, suspend or terminate the ESPP or any part of the ESPP at any time and for any reason. However, any termination may not affect previously made grants or adversely affect the rights of any participant without such participant's consent. Amendments to increase the number of Shares available under the ESPP or to change the definition of the corporations whose employees (or class of employees) are eligible to participate in the ESPP must be approved by the stockholders of the Company within 12 months of the adoption of the amendment. However, the Administrator may make amendments to the ESPP as it determines to be advisable if the continuation of the ESPP or any offering period would result in financial accounting treatment for the ESPP that is different from the financial accounting treatment in effect on the date the ESPP was initially adopted by the Board.

## Number of Shares Purchased by Certain Individuals and Groups

Participation in the ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Further, the number of Shares that may be purchased under the ESPP is determined, in part, by the price of our Common Stock on the first and last day of each offering period or purchase period, as applicable. Accordingly, the actual number of Shares that may be purchased by any eligible individual in the future is not determinable.

The following table provides information on the number of Shares purchased by the following employees and groups since the inception of the ESPP on July 17, 2015 through April 3, 2018:

Name of Individual or Group	Number of Shares Purchased (#)
2017 NEOs:	
Daniel H. Schulman	—
John Rainey	—
Gary J. Marino	—
A. Louise Pentland	—
William J. Ready	—
Current Director Nominees*:	
Rodney C. Adkins	—
Wences Casares	—
Jonathan Christodoro	—
John J. Donahoe	—
David W. Dorman	—
Belinda J. Johnson	—
Gail J. McGovern	—
David M. Moffett	—
Ann M. Sarnoff	—
Frank D. Yearly	—
All current executive officers as a group	—
All current non-employee directors as a group	—
Associate of any such directors, executive officers or nominees	—
Other persons who received or is to receive 5% of such options or rights	—
All employees as a group (excluding executive officers)	6,620,104

\* Does not include Mr. Schulman, who is listed above as a 2017 NEO.

## Summary of U.S. Federal Income Tax Consequences

The following is a general summary under current law of the material federal income tax consequences to participants in the ESPP under U.S. law. This summary deals with the general tax principles that apply and is provided only for general information. Certain types of taxes, such as state and local income taxes, are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The summary does not discuss all aspects of income taxation that may be relevant to a participant in light of his or her personal investment circumstances. This summarized tax information is not tax advice.

The ESPP is intended to be an employee stock purchase plan within the meaning of Section 423 of the Code. The ESPP also authorizes the grant of rights to purchase Shares that do not qualify under Section 423 pursuant to the non-423 component.

### 423 COMPONENT OFFERINGS

Under an employee stock purchase plan that qualifies under Section 423, no taxable income will be recognized by a participant, and no deductions will be allowable to the Company, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the Shares acquired under the ESPP or in the event the participant should die while still owning the purchased Shares.

If the participant sells or otherwise disposes of the purchased Shares within two years after the start date of the offering period in which the Shares were acquired or within one year after the actual purchase date of those Shares, then the participant generally will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair market value of the Shares on the purchase date exceeded the purchase price paid for those Shares, and the Company will be entitled to an income tax deduction (subject to applicable limits under the Code), for the taxable year in which such disposition occurs equal in amount to such excess. The amount of this ordinary income will be added to the participant's basis in the Shares, and any resulting gain or loss recognized upon the sale or disposition will be a capital gain or loss. If the Shares have been held for more than one year since the date of purchase, the gain or loss will be long-term.

If the participant sells or disposes of the purchased Shares more than two years after the start date of the offering period in which the Shares were acquired and more than one year after the actual purchase date of those Shares, then the participant generally will recognize ordinary income in the year of sale or disposition equal to the lesser of (a) the amount by which the fair market value of the Shares on the sale or disposition date exceeded the purchase price paid for those Shares, or (b) 15% of the fair market value of the Shares on the start date of that offering period. Any additional gain upon the disposition will be taxed as a long-term capital gain. Alternatively, if the fair market value of the Shares on the date of the sale or disposition is less than the purchase price, there will be no ordinary income and any loss recognized will be a long-term capital loss. The Company will not be entitled to an income tax deduction with respect to such disposition.

If the participant still owns the purchased Shares at the time of death, the lesser of (i) the amount by which the fair market value of the Shares on the date of death exceeds the purchase price or (ii) 15% of the fair market value of the Shares on the start date of the offering period in which those Shares were acquired will constitute ordinary income in the year of death.

### NON-423 COMPONENT OFFERINGS

If a purchase right is granted under the non-423 component of the ESPP, then to the extent a participant is subject to U.S. federal income tax, the amount equal to the difference between the fair market value of the Shares on the purchase date and the purchase price is taxed as ordinary income at the time of such purchase and is subject to tax withholding. The amount of such ordinary income will be added to the participant's basis in the Shares, and any additional gain or resulting loss recognized on the disposition of the Shares after such basis adjustment will be a capital gain or loss. A capital gain or loss will be long-term if the participant holds the Shares for more than one year after the purchase date. The Company may be entitled to a deduction in the year of purchase equal to the amount of ordinary income realized by the participant.

The tax consequences for Shares purchased pursuant to the ESPP may differ significantly from the U.S. federal income tax consequences described above.

**The Board of Directors Recommends a Vote **FOR** Proposal 4.**

# Proposal 5—Ratification of Appointment of Independent Auditor

The ARC Committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent auditor.

The ARC Committee has appointed PricewaterhouseCoopers LLP ("PwC") as our independent auditor for 2018. PwC has served as the Company's independent auditor since 2000, and as the Company's independent auditor as an independent public company since July 2015, following the completion of the Separation from eBay. The Board and the ARC Committee believe that the continued retention of PwC to serve as our independent auditor is in the best interests of Company and our stockholders. Accordingly, we are asking our stockholders to ratify the selection of PwC as our independent auditor for 2018. Although ratification is not legally required, we are submitting the appointment of PwC for ratification by our stockholders because we value our stockholders' views on the Company's independent auditors and as a matter of good corporate practice. We expect that representatives of PwC will be present at the Annual Meeting, will have an opportunity to make a statement if they wish, and will be able to respond to appropriate questions.

In the event that our stockholders do not ratify the appointment, it will be considered a recommendation to the Board and the ARC Committee to consider the selection of a different firm. Even if the appointment is ratified, the ARC Committee may in its discretion select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

## The Board and the ARC Committee Recommend a Vote FOR Proposal 5.

### ARC COMMITTEE REPORT

The ARC Committee operates under a written charter adopted by the Board. The Charter of the ARC Committee is available on the corporate governance section of PayPal's investor relations website at <https://investor.paypal-corp.com/corporate-governance.cfm>. Any future changes in the committee charter or key practices will also be reflected on the website. The ARC Committee is composed entirely of directors who meet the independence requirements of NASDAQ and the SEC, and who otherwise satisfy the requirements for audit committee service imposed by the Exchange Act.

The ARC Committee provides assistance and guidance to the Board in fulfilling its oversight responsibilities with respect to:

- PayPal's corporate accounting and financial reporting practices and the audit of its financial statements;
- The independent auditor's qualifications and independence;
- The performance of PayPal's internal audit function and independent auditor;
- The quality and integrity of PayPal's financial statements and reports;
- Reviewing and approving all audit engagement fees and terms, as well as all non-audit engagements with the independent auditor;
- Producing this report;
- PayPal's overall risk framework and risk appetite framework; and
- PayPal's compliance with legal and regulatory requirements.

The ARC Committee relies on the expertise and knowledge of management, the internal audit department, and the independent auditor in carrying out its oversight responsibilities. Management is responsible for the preparation, presentation and integrity of PayPal's financial statements, and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. PayPal's independent auditor, PwC, is responsible for performing an audit of PayPal's financial statements in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles in the U.S. The independent auditor is also responsible for expressing an opinion on the effectiveness of PayPal's internal control over financial reporting.

During 2017 and early 2018, among other things, the ARC Committee:

- Reviewed and discussed with management and the independent auditor the Company's quarterly earnings press releases, financial statements, and related periodic reports filed with the SEC;
- Reviewed and discussed with senior management, the internal audit team, and the independent auditor the scope, adequacy, and effectiveness of the Company's internal accounting and financial reporting controls and the independent auditor's opinion on the effectiveness of the Company's internal control over financial reporting;

- Monitored and evaluated the independent auditor's qualifications, performance, and independence on an ongoing basis;
- Reviewed and discussed with management, the independent auditor and, as appropriate, the chief accounting officer, the audit scope, any significant matters arising from any audit and the audit plans of both the internal audit department and the independent auditor;
- Reviewed and discussed the Company's enterprise-wide risk management program and overall risk management framework, including policies and practices established by management to identify, assess, measure, and manage key risks facing the Company;
- Reviewed and discussed the Company's enterprise-wide compliance program and global financial crimes compliance program, including compliance risks, management actions on significant compliance matters, progress of major compliance initiatives, and reports concerning the Company's compliance with applicable laws and regulations;
- Reviewed with the Chief Business Affairs and Legal Officer and/or the Chief Risk, Compliance and Security Officer, as applicable, any significant legal, compliance, or regulatory matters that could have a material impact on the Company's financial statements, business or compliance policies, including material notices to or inquiries received from governmental agencies;
- Reviewed and discussed with the independent auditor the audited financial statements in the Company's 2017 Annual Report on Form 10-K, including a discussion of the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments and estimates, the nature of significant risks and exposures, and the clarity and adequacy of the disclosures in the financial statements; and
- Held separate executive sessions with the independent auditor, the internal audit department, the internal Sarbanes-Oxley Act of 2002 team, and senior management to enable them to discuss legal, accounting, auditing and internal controls matters privately with the ARC Committee.

The ARC Committee has discussed with PwC the matters required to be discussed by the requirements of the PCAOB and the SEC. In addition, the ARC Committee discussed with PwC its independence from PayPal and its management, received the written disclosures and the letter required by applicable PCAOB requirements regarding the independent auditor's communications with the ARC Committee concerning independence, and considered whether PwC's provision of non-audit services was compatible with maintaining PwC's independence. The ARC Committee has confirmed that PwC's provision of audit and non-audit services to PayPal and its affiliates is compatible with PwC's independence.

Based on the ARC Committee's reviews and discussions described above, the ARC Committee recommended to the Board that the consolidated audited financial statements be included in PayPal's Annual Report on Form 10-K for the year ended December 31, 2017 for filing with the SEC. The ARC Committee also concluded that the appointment of PwC as the Company's independent auditor for the fiscal year ending December 31, 2018 is in the best interests of the Company and its stockholders. The Board recommends that stockholders ratify this appointment at the Annual Meeting.

#### The ARC Committee of the Board

David M. Moffett (Chairman)

Rodney C. Adkins

Belinda J. Johnson

Ann M. Sarnoff

Frank D. Yeary

#### AUDIT AND OTHER PROFESSIONAL FEES

The following table provides information about fees for services provided by PwC (in thousands):

	Year Ended December 31,	
	2017 (\$)	2016 (\$)
Audit Fees	9,602	8,618
Audit-Related Fees	792	530
Tax Fees	82	—
All Other Fees <sup>1</sup>	1,226	1,265
Total	11,702	10,413

<sup>1</sup> Includes approximately \$1.2 million of lease payments to PwC Russia for office space in Russia for each of 2017 and 2016, pursuant to a sublease arrangement negotiated on an arm's-length basis.

"Audit Fees" include fees for services provided in connection with the audit of our annual financial statements, the review of our quarterly financial statements included in our quarterly reports on Form 10-Q, the audit of internal control over financial reporting, and audit services provided in connection with other regulatory or statutory filings for which we have engaged PwC.

"Audit-Related Fees" are fees for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements or internal control over financial reporting and are not included in "Audit Fees." These services primarily include fees for procedures in connection with our Service Organizational Control ("SOC") reports and consultation regarding financial accounting and reporting matters.

"Tax Fees" are fees for tax services, including transfer pricing consulting, tax planning and advice, and tax compliance.

"All Other Fees" are fees for permitted services performed by PwC that do not meet the "Audit Fees," "Audit-Related Fees," or "Tax Fees" category description. These services primarily include fees for consulting services, compliance-related services, and software licenses, as well as the lease payment described above.

The ARC Committee has determined that the provision of the non-audit services listed above is compatible with PwC's independence.

#### **ARC PRE-APPROVAL POLICY**

The ARC Committee has adopted a policy requiring the pre-approval of any audit and permissible non-audit services provided by PwC. Under this policy, the ARC Committee preapproves all audit and permissible non-audit services to be provided by PwC. These services may include audit services, audit-related services, tax services, and other services. Pre-approval is generally provided for a period of up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specified budget. PwC is required to report periodically to the ARC Committee regarding the extent of services provided in accordance with each pre-approval and the fees for such services provided to date. The ARC may also pre-approve particular services on a case-by-case basis.

## Proposal 6—Stockholder Proposal Regarding Stockholder Proxy Access Enhancement

John Chevedden, whose address is 2215 Nelson Avenue, No. 205, Redondo Beach, California 90278, has advised the Company that he intends to present the following stockholder proposal at the Annual Meeting. Mr. Chevedden has indicated that he holds no fewer than 100 shares of PayPal common stock. The stockholder proposal will be voted on at the Annual Meeting only if properly presented by or on behalf of the proponent.

The text of the stockholder proposal and supporting statement appear exactly as received by the Company unless otherwise noted. All statements contained in the stockholder proposal and supporting statement are the sole responsibility of the proponent. The stockholder proposal may contain assertions about the Company or other matters that we believe are incorrect, but we have not attempted to refute all of those assertions.

**The Board Recommends a Vote **AGAINST** Stockholder Proposal 6 based on the reasons set forth in PayPal's Statement in Opposition following the stockholder proposal.**

### John Chevedden's Proposal and Supporting Statement (as received)

#### Proposal 6 – Shareholder Proxy Access Enhancement

Stockholders request the board of directors to take the steps necessary to amend its proxy access bylaw provisions and any associated documents, to include the following changes for the purpose of decreasing the average amount of Company common stock the average member of a nominating group would be required to hold for 3-years to satisfy the aggregate ownership requirements to form a nominating group and to increase the possible number of proxy access director candidates:

- No limitation shall be placed on the number of stockholders who can aggregate their shares to achieve the 3% of common stock required to nominate directors under our Company's proxy access provisions.
- The number of shareholder-nominated candidates eligible to appear in proxy materials will be 25% of Directors (rounded down) but not less than 2.

Even if the 20 largest public pension funds were able to aggregate their shares, they would not meet the current 3% criteria for a continuous 3-years at most companies according to the Council of Institutional Investors. This proposal addresses the contradiction that our company now has with proxy access for only the largest shareholders who are probably the least unlikely shareholders to make use of it.

It is especially important to improve a shareholder right, such as proxy access, to make up for our management taking away an important shareholder right—the right to an in-person annual meeting. We did not have an opportunity to vote on giving up this right.

For decades shareholders of U.S. companies had a once-a-year opportunity to ask a \$10 million CEO and directors questions in person. Now our directors can casually flip their phones to mute during the annual shareholder meeting.

Our management is now free to run a make-believe meeting with Investor Relations devising softball questions in advance while tossing out challenging shareholder questions. Then our \$10 million + CEO can simply read the scripted IR answers to a microphone—no opportunity for live audience feedback. There is no auditor present to see if IR is trashing incoming shareholder questions.

The lack of an in-person annual meeting means that a board meeting can be scheduled months after the virtual meeting—by which time any serious issues raised by shareholders under these adverse conditions will be long forgotten by the directors. Plus a virtual meeting guarantees that there will be no media coverage for the benefit of shareholders.

A virtual meeting is a complacency plan for our directors and top management. Top management has no incentive to avoid making mistakes for 365 days of the year out of concern that there will be an in-person accounting at the annual meeting in front of media.

Please vote to improve proxy access to help make up for our top management stripping away an important shareholder right:

Shareholder Proxy Access Enhancement—Proposal 6

## PAYPAL'S STATEMENT IN OPPOSITION

The Board has carefully considered this proposal and, for the reasons set forth below, does not believe that it is in the best interests of PayPal and its stockholders. The Board believes that PayPal has already implemented a progressive proxy access framework for its stockholders aligned with current best practices, which gives stockholders a meaningful voice in director elections, and that the Board believes is in the best interests of all its stockholders.

PayPal has had a proxy access framework in place since it became an independent publicly traded company in July 2015. Our proxy access provisions originally permitted a stockholder, or group of up to 15 stockholders, who have owned at least 3% or more of our outstanding common stock continuously for at least 3 years, to nominate and include in our proxy statement director nominees for up to 20% of the Board, in accordance with our Certificate of Incorporation and Bylaws. In May 2017, we proposed, and our stockholders approved, an amendment to our Certificate of Incorporation increasing the number of stockholders who can aggregate their shares to meet the 3% ownership threshold to 20 stockholders (the "aggregation limit"). We proposed this change to advance stockholders' rights by aligning PayPal's proxy access aggregation limit with the consensus formulation adopted by the vast majority of U.S. public companies that have instituted proxy access.

We engaged with many of our large stockholders regarding our proxy access framework. Based on their feedback as well as a benchmarking review of proxy access rights adopted by other companies, we continue to believe that our current proxy access framework is appropriate for the Company and our stockholders. The Board believes that the Company's current proxy access provisions strike the right balance between providing a meaningful stockholder right to nominate director candidates and mitigating the risk of abuse of this right by stockholders pursuing objectives that are not aligned with the interests of a majority of long-term stockholders.

As further discussed below, the changes to our proxy access framework requested by this stockholder proposal represent a fundamental change to the carefully considered and balanced approach reflected in our existing provisions.

- The proposal requests removing any limitation on the number of stockholders that can aggregate their shares to meet the 3% ownership threshold. We believe the 20-stockholder aggregation limit in our proxy access provisions is a reasonable limitation to control the administrative burden of confirming and monitoring share ownership within a nominating group and preventing the use of proxy access by a group that includes stockholders that do not have a substantial economic stake in the Company. Additionally, a 20-stockholder aggregation limit is the consensus formulation among companies that have adopted proxy access. Also, as we believe is consistent with best practices, two or more investment funds under common management and investment control are considered a single stockholder for the purposes of the aggregation limit, as are any two or more funds under common management and funded primarily by a single employer.
- The proposal also requests an increase in the number of permitted proxy access nominees to 25% of the Board, but not less than two. We have capped the number of permitted proxy access nominees at 20% of the Board. Our Governance Committee and Board seek to ensure that our directors have an appropriate mix of relevant skills, professional experience and backgrounds, bring diverse viewpoints and perspectives, and effectively represent the long-term interests of stockholders. Capping the number of permitted proxy access nominees at 20% of the Board ensures that stockholders have a meaningful right of nomination without overly disrupting the balance of characteristics the Board seeks to achieve through the regular nomination process. We believe this limit also helps to address concerns that a stockholder could use proxy access to eventually cause a change in control or to pursue special interests that are not widely supported by our stockholders.

PayPal has a history of strong corporate governance, and our leadership structure reflects our long-standing commitment to best practices in governance and accountability to our stockholders. For example, in addition to our proxy access framework:

- All of our directors are elected annually, with a majority voting standard.
- Nine of our 11 directors are independent.
- We have separate Chairman and CEO roles and a lead independent director with robust responsibilities.
- Our stockholders have a right to call a special meeting.
- We have an active stockholder engagement program through which we connect with our stockholders regularly to understand and discuss their views on corporate governance matters and issues of importance to all stockholders, including proxy access.
- We proactively focus on Board composition and refreshment, with an emphasis on building a Board consisting of directors who bring a wide range of diversity, skills, experiences, and perspectives. In 2017, we added three new directors to our Board.
- There are multiple channels for stockholders and other interested parties to communicate with our directors, as described under the heading "Communication with the Board" and elsewhere in this proxy statement.

In light of the Board's commitment to strong corporate governance, the Company's record of performance as supported by its governance structure and our existing proxy access rights which are consistent with best practices, the Board believes that adoption of this stockholder proposal is both unnecessary and would be detrimental to stockholder value.

For the reasons set forth above, the Board believes that implementation of this proposal is not in the best interests of PayPal and its stockholders. The Board therefore recommends a vote AGAINST the proposal.



## Proposal 7—Stockholder Proposal Regarding Political Transparency

James McRitchie and Myra K. Young, whose address is 9295 Yorkship Court, Elk Grove, California 95758, have advised the Company that they intend to present the following stockholder proposal at the Annual Meeting. Mr. McRitchie and Ms. Young have indicated that they hold 50 shares of PayPal common stock, and have delegated John Chevedden to act as their agent regarding this stockholder proposal, including its presentation at the Annual Meeting. The stockholder proposal will be voted on at the Annual Meeting only if properly presented by or on behalf of the proponents.

The text of the stockholder proposal and supporting statement appear exactly as received by the Company unless otherwise noted. All statements contained in the stockholder proposal and supporting statement are the sole responsibility of the proponents. The stockholder proposal may contain assertions about the Company or other matters that we believe are incorrect, but we have not attempted to refute all of those assertions.

**The Board Recommends a Vote **AGAINST** Stockholder Proposal 7 based on the reasons set forth in PayPal's Statement in Opposition following the stockholder proposal.**

### James McRitchie's and Myra K. Young's Proposal and Supporting Statement (as received)

**Resolved:** Shareholders of PayPal Holdings, Inc. ("PayPal" or "Company") hereby request PayPal provide a report, updated semiannually, disclosing the Company's:

1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct or indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including: (a) The identity of the recipient as well as the amount paid to each; and (b) The title(s) of the person(s) in the Company responsible for decision-making.

The report shall be presented to the board of directors or relevant board committee and posted on the Company's website within 12 months from the date of the annual meeting. This resolution does not encompass lobbying.

**Supporting Statement:** As long-term shareholders of PayPal, we support transparency and accountability in corporate political spending. This includes any activity considered intervention in a political campaign under the Internal Revenue Code, such as direct and indirect contributions to political candidates, parties, or organizations, and independent expenditures or electioneering communications on behalf of federal, state, or local candidates.

Disclosure is in the best interest of PayPal and its shareholders. The Supreme Court recognized this in its 2010 Citizens United decision: "...prompt disclosure of expenditures can provide shareholders and citizens with the information needed to hold corporations and elected officials accountable for their positions and supporters. Shareholders can determine whether their corporation's political speech advances the corporation's interest in making profits, and citizens can see whether elected officials are "in the pocket" of so-called moneyed interests... This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages."

The Court expressed enthusiasm that technology today makes disclosure "rapid and informative." Unfortunately, the Court envisioned a mechanism that does not currently exist. Relying on publicly available data does not provide a complete picture of our Company's political spending. For example, PayPal's payments to trade associations that may be used for election-related activities are undisclosed. This proposal asks our Company to disclose all of its political spending, including payments to trade associations and other tax exempt organizations, which may be used for political purposes. Implementation would bring PayPal in line with a growing number of leading companies, including Procter & Gamble Co., which present this information on their websites.

Support by mutual funds for this topic jumped significantly in 2017, to 48 percent from 43 percent in 2016, according to an analysis by Fund Votes. Our Company's board and shareholders need comprehensive disclosure to fully evaluate the political use of corporate assets.

We urge you to vote For:

Proposal 7 – Transparent Political Spending



## PAYPAL'S STATEMENT IN OPPOSITION

The Board has considered this proposal and concluded that its adoption is unnecessary and not in the best interests of our stockholders.

The Board believes it is in the best interests of our stockholders, customers and employees for PayPal to be an effective participant in the political process. We conduct business in over 200 jurisdictions, necessitating compliance with a complex set of laws, rules, and regulations. Proposed changes to these laws, rules, and regulations can have a significant effect on our business, operating results and stockholder value. We are committed to transparency in all areas of our business, including our political contributions and public policy activities.

Our policy and practices regarding political contributions are available at [https:// public policy.paypal-corp.com/about-us#politicaltransparency](https://public.policy.paypal-corp.com/about-us#politicaltransparency). Our Government Relations team focuses its efforts on public policy issues relevant to the long-term interest of our Company and stockholders, and without regard to the personal political preferences of individual PayPal directors, officers, and employees. We are committed to the highest ethical standards, and have procedures in place to ensure that our political contributions and lobbying activities are subject to appropriate oversight. Our Corporate Governance and Nominating Committee, consisting entirely of independent directors, has oversight of our political contributions and lobbying activities. Our Senior Vice President, Corporate Affairs, and Vice President, Government Relations, review and approve all plans for corporate political contributions to ensure that these activities are consistent with the Company's guidelines and comply with applicable laws.

Our political contributions and lobbying activities are governed by extensive laws and regulations, including those requiring public disclosure of such contributions and activities. We also have a non-partisan political action committee (the "PayPal PAC"), funded entirely on a voluntary basis by eligible PayPal employees. No corporate funds are used. Federal Election Commission ("FEC") Reports on political contributions and expenditures by the PayPal PAC are available at [www.fec.gov](http://www.fec.gov).

While the PayPal PAC is the primary vehicle for political engagement, we make a limited number of corporate political contributions at the state level where permitted by law. This includes corporate contributions to state candidates and political committees in areas where the Company has a significant employee or facility presence. We voluntarily disclose information regarding our political contributions under U.S. state and local laws, contributions to organizations operating under Section 527 of the Internal Revenue Code, and information regarding the governance of our political activities on our investor relations site at [https:// public.policy.paypal-corp.com/about-us#politicaltransparency](https://public.policy.paypal-corp.com/about-us#politicaltransparency).

We believe that the adoption of this proposal is unnecessary given our existing disclosure and reporting practices, and could result in competitive harm without providing commensurate benefit to our stockholders. The requested report could put us at a disadvantage relative to our competitors, who are not required to disclose this information, by revealing confidential information about our long-term strategies and priorities. Any additional political contribution reporting requirements that go beyond those required under existing law should be applicable to all participants engaged in the political process, rather than to us alone, as the proposal requests.

Finally, we note that our political contributions and expenditures are not financially material to the Company and are insignificant when compared to our total operating costs.

In conclusion, we believe this proposal is unnecessary given that ample public disclosure already exists regarding PayPal's political contributions and expenditures. If adopted, the proposal would apply only to PayPal and to no other company and would cause PayPal to incur undue cost and administrative burden, as well as competitive harm, without commensurate benefit to our stockholders. Accordingly, we recommend that you vote AGAINST this proposal.

## Proposal 8—Stockholder Proposal Regarding Human and Indigenous Peoples' Rights

John C. Harrington TTEE Harrington Investments, Inc. 401k Plan, whose address is 1001 2<sup>nd</sup> Street, Suite 325, Napa, California 94559 (the "Plan"), has advised the Company that it intends to present the following stockholder proposal at the Annual Meeting. The Plan has indicated that it holds at least \$2,000 worth of PayPal common stock. The stockholder proposal will be voted on at the Annual Meeting only if properly presented by or on behalf of the proponent.

The text of the stockholder proposal and supporting statement appear exactly as received by the Company unless otherwise noted. All statements contained in the stockholder proposal and supporting statement are the sole responsibility of the proponent. The stockholder proposal may contain assertions about the Company or other matters that we believe are incorrect, but we have not attempted to refute all of those assertions.

**The Board Recommends a Vote AGAINST Stockholder Proposal 8 based on the reasons set forth in PayPal's Statement in Opposition following the stockholder proposal.**

### The Plan's Proposal and Supporting Statement (as received)

#### PAYPAL

Whereas, in 2015 our Company endorsed the Human Rights Campaign (HRC) landmark federal non-discrimination legislation (Equality Act) to protect LGBT people from discrimination; and

Whereas, our Company on its website highlighted its long-time support for domestic partnership and against discrimination based on sexual orientation or gender identity; and

Whereas, our Company, on the other hand, has been attacked for hypocrisy for supporting government policies to expand business in Cuba and for conducting business in at least 25 countries where homosexual behavior is illegal; and

Whereas, our Company has also been accused of discriminating against Palestinians and Palestinian businesses while not denying financial services to Israeli settlers in the occupied West Bank and Gaza Strip; and

Whereas, our Company in 2017 earned a perfect 100% score on Human Rights Campaign's (HRC) Corporate Equity Index for the second year in a row and was named one of the Best Places to Work for LGBT Equality by HRC; and

Whereas, our Company has adopted a voluntary Code of Business Conduct and Ethics; and

Whereas, none of our Company's committee charters, Bylaws, or Articles of Incorporation mention human rights policies or statements that outline PayPal's official company policies on international human rights; and

Whereas, The United Nations in 1948 adopted the Universal Declaration of Human Rights, and the United Nations Human Rights Council in 2011 adopted the United Nations Guiding Principles on Business and Human Rights, and in 2006, the United Nations adopted the United Nations Declaration on the Rights of Indigenous Peoples;

Whereas, the Proponent believes it is a fiduciary duty of the board and management to consider human rights when making all executive decisions where there is significant potential impact or consequences of our Company's involvement, as well as significant risk to our Company;

Whereas, our Company, addresses human rights in non-binding policy statements and non-binding guidelines with limited legal teeth or enforcement mechanisms and therefore minimal assurance of respect or protection for global human rights; and

Whereas, reputational damage, negative publicity and loss of customers' business can result in long-term consequences for our Company;

Therefore, be it resolved, shareholders request that PayPal modify its committee charters, Bylaws or Articles of Incorporation to ensure that our Human and Indigenous Peoples' Rights Policies clearly delineate the fiduciary duties of Board and management to respect and honor global human and indigenous peoples' rights in all relevant business transactions.

## PAYPAL'S STATEMENT IN OPPOSITION

PayPal is committed to the highest standards of social responsibility and human rights in our business operations, and respecting the dignity of every person is a long-held commitment. We have carefully considered the stockholder proposal, and our Board does not believe that formally amending our corporate governance documents is an effective or appropriate way to address human rights.

We operate with a strong mission and vision and set values that are grounded in the idea that it is a critical role of businesses today to be a force for good in our world. We believe that our Company must have a purpose beyond profit and that our customers, employees and other stakeholders increasingly expect us to take meaningful action. Consistent with our mission, vision and purpose, we work meaningfully to respect and honor global human rights in our business operations.

### Social

We are committed to improving financial participation and health for individuals and businesses, powering charitable giving to nonprofits around the world, and strengthening the communities in which we live and work. Inclusion and equality are at the heart of our mission to make moving and managing money a right for all. This mission extends to how we treat one another and how we operate in the world. It shapes our culture, strengthens our communities, guides our actions, and is evidenced in our drive to create a fully inclusive workplace. For example:

- PayPal is committed to improving the health of local communities and the strength of the global economy. Through products such as PayPal Working Capital, we have been at the forefront of helping small businesses gain access to capital since 2013, providing more than \$4.5 billion in funding to more than 140,000 small businesses, many in communities where physical bank branches are not easily accessible.
- PayPal partners with Village Capital, an organization that trains and invests in seed-stage social entrepreneurs. Together we are supporting entrepreneurs focused on democratizing access to financial services for low-wealth individuals and families around the world.
- PayPal has provided Kiva, an international nonprofit that pioneers micro-lending to small entrepreneurs around the world, fee-free transactions for over a decade. PayPal's support has helped enable Kiva to provide interest-free loans to approximately 2.5 million entrepreneurs in 86 countries, many of whom are female and lack other methods of access to capital. Additionally, PayPal connects skilled volunteers with Kiva projects, promotes and manages a lending campaign with consumers and employees, and cross-promotes Kiva's platform to small merchants on PayPal.
- We are committed to providing charitable organizations with the tools and technology they need to raise mission-critical funds. During the 2017 holiday season, the global PayPal community contributed over \$1 billion to charities and nonprofits with donations coming from people in 175 different countries.
- More information about our efforts to improve financial participation and health for individuals and businesses, power charitable giving to nonprofits around the world, and strengthen the communities in which we live and work can be found on our Social Innovation site at <https://www.paypal.com/us/webapps/mpp/social-innovation>.

### Inclusion and Diversity

We are a purpose-driven company whose beliefs are reflected in the way we do business every day. One area that is of particular importance is inclusion and diversity. For example:

- PayPal's vision is for everyone to have access to our services, subject to our ability to properly meet the customer needs, mitigate risk, and address regulatory and compliance requirements and resource allocation considerations in regions where our services are not currently available.
- Through our core business we are working on ways to use technology and data to serve underserved customers. For consumers sending money overseas with our Xoom and PayPal products, it costs consumers on average just 3.93% of the amount sent compared with World Bank data demonstrating that the average cost of sending a remittance is 7.45%.
- In 2018, for the third year in a row, PayPal received a perfect score of 100 percent on the Human Rights Campaign's Corporate Equality Index, which is a U.S. national report from the Human Rights Campaign about practices and policies related to LGBTQ workplace equality, such as non-discrimination protections, domestic partner benefits, transgender-inclusive health care benefits, and public engagement. PayPal supports efforts to make the discrimination of LGBTQ persons unlawful through legislative efforts, including participation in amicus curiae briefs and through public endorsement of the Equality Act bill. Our employee affinity group, Pride, serves as a platform for LGBTQ community events and other activities within PayPal, with chapters in PayPal offices across the globe.
- For more information please visit our Responsible Practices page at <https://www.paypal.com/us/webapps/mpp/about/responsible-practices>.

### Governance

From a governance perspective, our ARC Committee, consisting entirely of independent directors, already supports the Board in overseeing and assessing key current and emerging risks facing the Company, including factors that contribute to our operational and reputational exposures. In addition, we have adopted both a Code of Business Conduct & Ethics, which is applicable to all of our directors and employees, as well as a Supplier Code of Business Conduct & Ethics, which is applicable to our suppliers, vendors and

consultants. Both of these governance documents provide clear guidance on how we should conduct business for the benefit of ourselves, our colleagues, our customers, our suppliers and our stockholders. These policies are available at <https://investor.paypal-corp.com/corporate-governance.cfm> and <https://www.paypal.com/us/webapps/mpp/about/responsible-practices>.

Our Board and management are committed to working together to continue to advance the Company's commitment to human rights. Our existing governance framework has produced a strong commitment to human rights and progress that is evident in our established policies, practices and procedures, which continue to evolve. As a result, our Board believes that the proposal's recommendations are unnecessary and counterproductive in light of our existing commitment to human rights.

In light of the measures that PayPal has already taken to maintain the highest standards of social responsibility and human rights in the operations of our business, we believe that the formal amendments to our corporate governance documents requested by the proponent is not necessary and would not be beneficial to PayPal or our stockholders. The Board therefore recommends a vote AGAINST the proposal.

# Other Information

## Questions and Answers

### PROXY MATERIALS

#### 1. Why did I receive these proxy materials?

The Board has made these materials available to you on the Internet or, upon your request, has delivered printed proxy materials to you, in connection with the solicitation of proxies by the Company for use at our Annual Meeting, which will take place exclusively online on May 23, 2018. You are receiving these materials because you were a stockholder at the close of business on April 3, 2018, the record date, and are entitled to vote at the Annual Meeting. This proxy statement and our 2017 Annual Report on Form 10-K, together with a proxy card or voting instruction form, are being mailed to stockholders beginning on or about April 12, 2018.

#### 2. What is included in the proxy materials?

The proxy materials include:

- Our proxy statement for the Annual Meeting, which includes information that we are required to provide to you under SEC rules and that is designed to assist you in voting your shares; and
- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

If you received a paper copy of these materials by mail, the proxy materials also include a proxy card or a voting instruction form for the Annual Meeting. If you received a "Notice of Internet Availability of Proxy Materials" (described below) instead of a paper copy of the proxy materials, see Question 10 below for information regarding how you can vote your shares.

#### 3. Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

We are distributing our proxy materials to certain stockholders over the Internet under the "notice and access" approach in accordance with SEC rules. As a result, we are mailing to many of our stockholders a "Notice of Internet Availability of Proxy Materials" ("Notice") of the proxy materials instead of a paper copy of the proxy materials. All stockholders receiving the Notice will have the ability to access the proxy materials over the Internet and request to receive a paper copy of the proxy materials by mail. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found in the Notice. In addition, the Notice contains instructions on how you may request access to proxy materials in printed form by mail or electronically on an ongoing basis.

This approach conserves natural resources and reduces our printing and distribution costs, while providing a timely and convenient method of accessing the materials and voting. On April 12, 2018, we mailed the Notice to participating stockholders, containing instructions on how to access the proxy materials on the Internet.

#### 4. How can I access the proxy materials over the Internet?

Your Notice, proxy card or voting instruction card will contain instructions on how to:

- view our proxy materials for the annual meeting on the Internet; and
- instruct us to send our future proxy materials to you electronically by e-mail.

Our proxy materials are also available on our website at <https://investor.paypal-corp.com/annuals-proxies.cfm> and our proxy materials will be available during the voting period starting on April 12, 2018.

Instead of receiving future copies of our proxy statements and annual reports by mail, stockholders of record and most beneficial owners can elect to receive an email that will provide an electronic link to these documents. Choosing to receive your proxy materials by email will save us the cost of printing and mailing documents to you and reduce the environmental impact of our annual meetings of stockholders. Your election to receive future proxy materials by email will remain in effect until you revoke it.

#### Stockholder of Record

If you vote on the Internet, simply follow the prompts to enroll in the electronic proxy delivery service. You also may enroll in the electronic proxy delivery service at any time in the future by going directly to <https://investor.paypal-corp.com/annuals-proxies.cfm> and following the enrollment instructions.

#### Beneficial Owner

If you hold your shares in a brokerage account or through a broker, bank, or other nominee, you also may be able to receive copies of these documents electronically. Please check the information provided in the proxy materials sent to you by your broker, bank or other nominee regarding the availability of this service.

**5. How may I obtain a paper copy of the proxy materials?**

Stockholders who receive a paper copy of the Notice will find instructions about how to obtain a paper copy of the proxy materials on the Notice. Stockholders who receive the Notice by email will find instructions about how to obtain a paper copy of the proxy materials as part of that email. All stockholders of record who do not receive a Notice by paper copy or email will receive a paper copy of the proxy materials by mail.

**6. I share an address with another stockholder and we received only one paper copy of the proxy materials or Notice. How may I obtain an additional copy?**

We have adopted a procedure called “householding,” which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, the proxy materials to multiple stockholders who share the same address unless we received contrary instructions from one or more of the stockholders. This procedure reduces our printing and mailing costs and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards.

Upon written request, we will deliver promptly a separate copy of the Notice and, if applicable, the proxy materials to any stockholder at a shared address to which we delivered a single copy of any of these documents. To receive a separate copy of the Notice and, if applicable, the proxy materials, stockholders of record may contact Broadridge Financial Solutions, Inc. at:

- By Internet: [www.proxyvote.com](http://www.proxyvote.com)
- By telephone: 1-800-579-1639
- By email: [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com)

Additionally, stockholders who share the same address and receive multiple copies of the Notice can request a single Notice by contacting us at the address, email address or telephone number above.

Beneficial owners of shares may contact their brokerage firm, bank, broker-dealer, or other nominee to request information about householding.

## VOTING INFORMATION

### 7. What proposals will be voted on at the Annual Meeting? How does the Board recommend that I vote? What is the voting requirement to approve each of the proposals? What effect will abstentions and broker non-votes have?

Proposal	Voting Options	Board Recommendation	Vote Required to Adopt the Proposal	Effect of Abstentions	Effect of Broker Non-Votes*
Item 1: Election of the 11 directors nominees identified in this proxy statement to hold office until our 2019 Annual Meeting of Stockholders.	For, Against or Abstain on each nominee	FOR each nominee	Majority of votes cast for such nominee	No effect	No effect
Item 2: Advisory vote to approve the compensation of our named executive officers.	For, Against or Abstain	FOR	Majority of shares represented in person or by proxy at the Annual Meeting and entitled to vote	Treated as votes Against	No effect
Item 3: Approval of the PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan.	For, Against or Abstain	FOR	Majority of shares represented in person or by proxy at the Annual Meeting and entitled to vote	Treated as votes Against	No effect
Item 4: Approval of the PayPal Holdings, Inc. Amended and Restated Employee Stock Purchase Plan.	For, Against or Abstain	FOR	Majority of shares represented in person or by proxy at the Annual Meeting and entitled to vote	Treated as votes Against	No effect
Item 5: Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor for 2018.	For, Against or Abstain	FOR	Majority of shares represented in person or by proxy at the Annual Meeting and entitled to vote	Treated as votes Against	Brokers have discretion to vote
Items 6-8: Stockholder proposals regarding: (6) stockholder proxy access enhancement; (7) political transparency; and (8) human and indigenous peoples' rights.	For, Against or Abstain	AGAINST	Majority of shares represented in person or by proxy at the Annual Meeting and entitled to vote	Treated as votes Against	No effect

\* See Question 13 below for additional information on broker non-votes.

### 8. What shares can I vote?

Each share of PayPal common stock issued and outstanding as of the close of business on April 3, 2018, the record date for the Annual Meeting, is entitled to cast one vote per share on all items being voted on at the Annual Meeting. You may vote all shares of PayPal common stock that you owned as of the record date, including shares held (1) directly in your name as the stockholder of record, including shares purchased or acquired through PayPal's equity incentive plans, and (2) for you as the beneficial owner through a broker, bank, trustee, or other nominee.

On the record date, 1,187,180,992 shares of common stock were issued and outstanding and entitled to vote.

**9. What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

Most PayPal stockholders hold their shares as a beneficial owner through a bank, broker or other nominee rather than directly in their own name. As summarized below, there are some important distinctions between shares held of record and those owned beneficially.

**Stockholder of Record**

If your shares are registered directly in your name with PayPal's transfer agent, Computershare Shareowner Services LLC, you are considered the stockholder of record with respect to those shares. The Notice and proxy statement and any accompanying documents, if applicable, have been provided directly to you by PayPal.

**Beneficial Owner**

If your shares are held in a brokerage account or by a bank or other holder of record, you are considered the "beneficial owner" of those shares (this is also commonly referred to as holding shares in "street name"). Accordingly, the Notice and proxy statement and any accompanying documents, if applicable, have been provided to your broker, bank, or other holder of record, who in turn provided the materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote your shares by using the voting instruction card or by following their instructions for voting on the Internet or by telephone.

**10. How do I vote?**

Stockholders may vote by Internet, telephone, mail, or in person by attending the virtual Annual Meeting by webcast. Please make sure that you have your Notice, proxy card or voting instruction form available and carefully follow the instructions.

**Stockholder of Record**

By Internet: vote your shares online at [www.proxyvote.com](http://www.proxyvote.com).

By telephone: call (800) 690-6903 or the telephone number on your proxy card.

By mail: complete, sign and date your proxy card and return it in the postage-paid envelope.

Internet and telephone voting are available 24 hours a day and will close at 11:59 p.m. Eastern Time on Tuesday, May 22, 2018.

Live at the virtual Annual Meeting: participate in the Annual Meeting online at [pypl.onlineshareholdermeeting.com](http://pypl.onlineshareholdermeeting.com) and vote your shares during the Annual Meeting. You will need the 16-digit control number included with these proxy materials to participate in the Annual Meeting.

**Beneficial Owner**

By Internet: vote your shares online at [www.proxyvote.com](http://www.proxyvote.com).

By telephone: call (800) 690-6903 or the telephone number on your voting instruction form.

By mail: mark, date and sign your voting instruction form and return it in the postage-paid envelope.

Internet and telephone voting are available 24 hours a day and will close at 11:59 p.m. Eastern Time on Tuesday, May 22, 2018.

Live at the virtual Annual Meeting: participate in the Annual Meeting online at [pypl.onlineshareholdermeeting.com](http://pypl.onlineshareholdermeeting.com) and vote your shares during the Annual Meeting. You will need the 16-digit control number included with these proxy materials to participate in the Annual Meeting.

**11. What can I do if I change my mind after I vote my shares?**

If you are the stockholder of record, you may revoke your proxy at any time before it is voted at the Annual Meeting by:

- sending written notice of revocation to our Corporate Secretary;
- submitting a revised proxy by Internet, telephone, or paper ballot after the date of the revoked proxy; or
- voting in person by attending the virtual Annual Meeting by webcast.

If you are a beneficial owner of shares, you may submit new voting instructions by contacting your broker, bank or other nominee. Because you are not the stockholder of record, you may not vote your shares at the virtual Annual Meeting unless you request and obtain a valid proxy from the organization that holds your shares giving you the right to vote the shares at the Annual Meeting. Your shares will be voted according to the most recent instructions you provide.

**12. What if I return my proxy card but do not provide voting instructions?**

If you are a stockholder of record and you return your signed proxy card without giving specific voting instructions, your shares will be voted as recommended by the Board (see Question 7 above).

**13. What if I am a beneficial owner and do not give voting instructions to my broker?**

If you are a beneficial owner of shares, your broker, bank or other nominee is not permitted to vote on your behalf on the election of directors and other matters to be considered at the Annual Meeting, except for the ratification of the appointment of



PricewaterhouseCoopers LLP as our independent auditor for 2018, unless you provide specific instructions by completing and returning the voting instruction form or following the instructions provided to you to vote your shares on the Internet or by telephone. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a “broker non-vote” and will have no effect on the Proposals described above except for Proposal 5 (see Question 7 above). For your vote to be counted, you will need to communicate your voting decision to your broker, bank or other nominee before the date of the Annual Meeting.

**14. What constitutes a quorum?**

A majority of the shares of PayPal common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, is necessary to constitute a quorum for purposes of adopting proposals at the Annual Meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum.

**15. Who will bear the cost of soliciting votes for the Annual Meeting?**

We bear all expenses incurred in connection with the solicitation of proxies. We have engaged D.F. King & Co., Inc. to assist us in distributing proxy materials and soliciting proxies for a fee of \$15,000, plus reasonable out-of-pocket expenses. We will reimburse brokerage houses and other custodians, fiduciaries, and nominees for their reasonable out-of-pocket expenses for forwarding proxy materials to beneficial owners of shares. Our directors, officers, and employees may solicit proxies in person, by mail, by telephone, or by electronic communication, but they will not receive any additional compensation for these activities.

**16. What happens if additional matters are presented at the Annual Meeting?**

Other than the nine items of business described in this proxy statement, we are not aware of any other business to be acted upon at the Annual Meeting. If you grant a proxy, the persons named as proxy holders, Daniel H. Schulman, John D. Rainey, A. Louise Pentland, Wanji Walcott and Brian Y. Yamasaki, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting. If, for any reason, any of the nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board.

**17. Where can I find the voting results of the Annual Meeting?**

We will announce preliminary voting results at the Annual Meeting. We will publish the final voting results in a Current Report on Form 8-K within four business days following the Annual Meeting.

**ATTENDING THE ANNUAL MEETING**

**18. How can I attend the Annual Meeting?**

The Annual Meeting will be a completely virtual meeting of stockholders, which will be conducted exclusively via live webcast. You are entitled to participate in the annual meeting only if you were a PayPal stockholder as of the close of business on April 3, 2018, the record date, or if you hold a valid proxy for the annual meeting.

You will be able to attend the Annual Meeting online and submit your questions during the meeting by visiting [pypl.onlineshareholdermeeting.com](http://pypl.onlineshareholdermeeting.com). You also will be able to vote your shares by attending the virtual Annual Meeting online.

To participate in the annual meeting, you will need the 16-digit control number included on your Notice, on your proxy card or on the instructions that accompanied your proxy materials. Stockholders who wish to submit a question to PayPal prior to the Annual Meeting may do so at [www.proxyvote.com](http://www.proxyvote.com). Stockholders will need the 16-digit control number to submit a question.

The online meeting will begin promptly at 8:00 a.m., Pacific Time. We encourage you to access the meeting prior to the start time. Online check-in will begin at 7:45 a.m., Pacific Time, and you should allow sufficient time for the check-in procedures.

**19. Why are you holding a virtual meeting instead of a physical meeting?**

We are excited to embrace the latest technology to provide expanded access, improved communication and cost savings for our stockholders and our Company. We believe that hosting a virtual meeting will enable more of our stockholders to attend and participate in the meeting since our stockholders can participate from any location around the world with Internet access.

**20. What is the deadline to propose actions for consideration at next year's Annual Meeting of Stockholders or to nominate individuals to serve as directors?**

Stockholder Proposals: Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the 2019 Annual Meeting of Stockholders (“2019 Annual Meeting”) by submitting their proposals in writing to PayPal’s Corporate Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2019 Annual Meeting, our Corporate Secretary must receive the written proposal at our principal executive offices no later than December 13, 2018. If we hold our 2019 Annual Meeting more than 30 days before or after the one-year anniversary date of the Annual Meeting, we will disclose the new deadline by which stockholder proposals must be received by any means reasonably determined to inform stockholders. In addition, stockholder proposals must otherwise comply with the

requirements of Rule 14a-8 under the Exchange Act, and with the SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to Corporate Secretary, PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131.

Our Bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy statement. Our Bylaws provide that the only business that may be conducted at an annual meeting is business that is (1) brought before the meeting by the Company and specified in the notice of a meeting given by or at the direction of our Board, (2) brought before the meeting by or at the direction of our Board, or (3) otherwise properly brought before the meeting by a stockholder of record entitled to vote at the annual meeting who has delivered timely written notice to our Corporate Secretary, which notice must contain the information specified in our Bylaws. To be timely for our 2019 Annual Meeting, our Corporate Secretary must receive the written notice by overnight express courier or registered mail, return receipt requested, at our principal executive offices:

- not earlier than the close of business on January 23, 2019; and
- not later than the close of business on February 22, 2019.

If we hold our 2019 Annual Meeting more than 30 days before or more than 60 days after the one-year anniversary of our 2018 Annual Meeting, our Corporate Secretary must receive the written notice at our principal executive offices:

- not earlier than the close of business on the 120th day prior to the 2019 Annual Meeting; and
- not later than the close of business on the 90th day prior to the 2019 Annual Meeting or, if later, the 10th day following the day on which public disclosure of the 2019 Annual Meeting was first made.

If a stockholder who has notified us of his or her intention to present a proposal at an annual meeting does not appear virtually (for a virtual annual meeting) or in person (for a physical annual meeting) to present his or her proposal at such meeting, we are not required to present the proposal for a vote at such meeting.

**Nomination of Director Candidates:** You may propose director candidates for consideration by our Governance Committee. Any such recommendations should include the nominee's name and qualifications for membership on our Board, and should be directed to our Corporate Secretary at the address set forth above. For additional information regarding stockholder recommendations for director candidates, see "Proposal 1—Election of Directors—Consideration of Director Nominees—Stockholder Recommendations and Nominations" on page 14 of this proxy statement.

In addition, our Bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our Bylaws. In addition, the stockholder must give timely notice to our Corporate Secretary in accordance with our Bylaws, which, in general, require that our Corporate Secretary receive the notice within the time period described above under "Stockholder Proposals" for stockholder proposals that are not intended to be included in our proxy statement.

We advise you to review our Bylaws, which contain these and other requirements with respect to advance notice of stockholder proposals and director nominations, including certain information that must be included concerning the stockholder and each proposal and nominee. Our Bylaws were filed with the SEC on February 7, 2018 as an exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and are available at <https://investor.paypal-corp.com/annuals-proxies.cfm>. You may also contact our Corporate Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for submitting stockholder proposals and nominating director candidates.

## Other Matters

The Board is not aware of any other matters that will be presented for consideration at the Annual Meeting. However, if any other matters are properly brought before the Annual Meeting, the persons named in the accompanying proxy intend to vote on those matters in accordance with their best judgment.

The Chair of the Annual Meeting may refuse to allow the transaction of any business, or to acknowledge the nomination of any person, not made in compliance with our Bylaws.

By Order of the Board of Directors



Brian Y. Yamasaki  
Vice President, Corporate Legal and Secretary  
Dated: April 12, 2018

# Appendix A

## PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan

### ARTICLE 1. PURPOSE

The purpose of the PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan, as it may be further amended and restated from time to time (the “**Plan**”) is to promote the success and enhance the value of PayPal Holdings, Inc. (the “**Company**”) by linking the personal interests of the members of the Board, Employees, and Consultants (each as defined below) to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

### ARTICLE 2. DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

- 2.1 “**Assumed Spin-Off Award**” means an award granted to certain employees, consultants and directors of the Company, eBay Inc. and their respective subsidiaries under an equity compensation plan maintained by eBay Inc. or a corporation acquired by eBay Inc., which award is assumed by the Company and converted into an Award in connection with the Spin-Off, pursuant to the terms of the Employee Matters Agreement between the Company and eBay Inc., entered into in connection with the Spin-Off, which Assumed Spin-Off Award shall be issued upon the effective time of the Spin-Off.
- 2.2 “**Award**” means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Stock Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock Unit award, a Restricted Stock Unit award or a Performance Bonus Award granted to a Participant pursuant to the Plan, including an Assumed Spin-Off Award.
- 2.3 “**Award Agreement**” means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.
- 2.4 “**Board**” means the Board of Directors of the Company.
- 2.5 “**Change in Control**” means and includes each of the following:
  - (a) A transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the U.S. Securities and Exchange Commission) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a “person” that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; or
  - (b) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 2.5(a) or Section 2.5(c)) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or
  - (c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company’s assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:
    - (i) Which results in the Company’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company’s assets or otherwise succeeds to the business of the Company (the Company or such person, the “**Successor Entity**”)) directly or indirectly, at least a majority of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction; and
    - (ii) After which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this Section 2.5(c)(ii) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or
  - (d) The Company’s stockholders approve a liquidation or dissolution of the Company.

In addition, if the Change in Control constitutes a payment event with respect to any Award which provides for the deferral of compensation and is subject to Section 409A of the Code, to the extent required, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such Award must also constitute a “change in control event” as defined in Treasury Regulation § 1.409A-3(i)(5). The Committee shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

- 2.6 “Code”** means the U.S. Internal Revenue Code of 1986, as amended.
- 2.7 “Committee”** means the committee of the Board described in Article 12.
- 2.8 “Consultant”** means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to the Company or any Subsidiary; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities; and (c) the consultant or adviser is a natural person.
- 2.9 “Deferred Stock Unit”** means a right to receive a specified number of shares of Stock during specified time periods pursuant to Section 8.5.
- 2.10 “Director”** means a member of the Board.
- 2.11 “Disability”** means that the Participant qualifies to receive long-term disability payments under the Company’s long-term disability insurance program, as it may be amended from time to time, or if Participant is otherwise ineligible to participate in the Company’s long-term disability insurance program or resides outside the United States and no such program exists, means that the Participant is unable to perform his or her duties with the Company or its Subsidiary by reason of a medically determinable physical or mental impairment, as determined by a physician acceptable to the Company, which is permanent in character or which is expected to last for a continuous period of more than six (6) months.
- 2.12 “Dividend Equivalent”** means a right granted to a Participant pursuant to Section 8.3 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.
- 2.13 “DRO”** shall mean a domestic relations order as defined by the Code or Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time, or the rules thereunder.
- 2.14 “Effective Date”** shall have the meaning set forth in Section 13.1.
- 2.15 “Eligible Individual”** means any person who is an Employee, a Consultant or an Independent Director, as determined by the Committee.
- 2.16 “Employee”** means any person on the payroll records of the Company or a Subsidiary and actively providing services as an employee. Service as a Director or compensation by the Company or a Subsidiary solely for services as a Director shall not be sufficient to constitute “employment” by the Company or a Subsidiary.
- 2.17 “Equity Restructuring”** shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the shares of Stock (or other securities of the Company) or the share price of Stock (or other securities) and causes a change in the per share value of the Stock underlying outstanding Awards.
- 2.18 “Exchange Act”** means the U.S. Securities Exchange Act of 1934, as amended.
- 2.19 “Fair Market Value”** means, as of any given date, (a) if Stock is traded on any established stock exchange, the closing price of a share of Stock as reported in the Wall Street Journal (or such other source as the Company may deem reliable for such purposes) for such date, or if no sale occurred on such date, the first trading date immediately prior to such date during which a sale occurred; or (b) if Stock is not traded on an exchange but is quoted on a national market or other quotation system, the last sales price on such date, as reported in the Wall Street Journal (or such other source as the Company may deem reliable for such purposes), or if no sales occurred on such date, then on the date immediately prior to such date on which sales prices are reported; or (c) if Stock is not publicly traded, the fair market value of a share of Stock as established by the Committee acting in good faith.
- 2.20 “Full Value Award”** means any Award other than an Option, Stock Appreciation Right or other Award for which the Participant pays the intrinsic value existing at the date of grant (whether directly or by forgoing a right to receive a payment from the Company or any Subsidiary).

- 2.21 “Incentive Stock Option”** means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.
- 2.22 “Independent Director”** means a Director of the Company who is not an Employee.
- 2.23 “Non-Employee Director”** means a Director of the Company who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) under the Exchange Act, or any successor rule.
- 2.24 “Non-Qualified Stock Option”** means an Option that is not intended to be an Incentive Stock Option.
- 2.25 “Option”** means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.
- 2.26 “Participant”** means any Eligible Individual who, as a member of the Board, Consultant or Employee, has been granted an Award pursuant to the Plan.
- 2.27 “Performance Bonus Award”** has the meaning set forth in Section 8.7.
- 2.28 “Performance Criteria”** means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period, determined as follows:
- (a) The Performance Criteria that will be used to establish Performance Goals may include, without limitation, any of the following: trading volume; users; customers; total payment volume; revenue; operating income; EBITDA and/or net earnings (either before or after interest, taxes, depreciation and amortization); net income (either before or after taxes); earnings per share; earnings as determined other than pursuant to United States generally accepted accounting principles (“GAAP”); multiples of price to earnings; multiples of price/earnings to growth; return on net assets; return on gross assets; return on equity; return on invested capital; Stock price; cash flow (including, but not limited to, operating cash flow and free cash flow); net or operating margins; economic profit; Stock price appreciation; total stockholder returns; employee productivity; market share; volume; customer satisfaction metrics; net sales; expense levels; sales or licenses of the Company’s assets, including its intellectual property, whether in a particular jurisdiction or territory or globally, or through partnering transactions; implementation, completion or attainment of objectives with respect to research, development, commercialization, products or projects, production volume levels, acquisitions and divestitures and recruiting and maintaining personnel; financing and other capital raising transactions (including sales of the Company’s equity or debt securities, factoring transactions); product revenue growth; gross profit; financial ratios, including those measuring liquidity, activity, profitability or leverage; cost of capital or assets under management; strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property, establishing relationships with commercial entities with respect to the marketing, distribution and sale of the Company’s products (including with group purchasing organizations, distributors and other vendors)); co-development, co-marketing, profit sharing, joint venture or other similar arrangements; economic value-added models or equivalent metrics; regulatory achievements (including submitting or filing applications or other documents with regulatory authorities or receiving approval of any such applications or other documents, passing pre-approval inspections (whether of the Company or third parties)); gross or cash margins; debt reduction; reductions in costs; year-end cash; working capital levels, including cash, inventory and accounts receivable; research and development achievements; operating efficiencies and employee engagement/satisfaction metrics, any of which may be measured with respect to the Company, or any Subsidiary, affiliate or other business unit of the Company, either in absolute terms, terms of growth or as compared to any incremental increase, as compared to results of a peer group, and may be calculated on a pro forma basis or in accordance with GAAP.
  - (b) The Committee may, in its discretion, provide that one or more adjustments shall be made to one or more of the Performance Goals. Such adjustments may include, without limitation, one or more of the following: (i) items related to a change in accounting principle; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during the Performance Period; (vii) items related to the disposal of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under GAAP; (ix) items attributable to any stock dividend, stock split, combination or exchange of shares occurring during the Performance Period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments; (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company’s core, on-going business activities; or (xiv) items relating to any other unusual or nonrecurring events or changes in applicable laws, tax rates, accounting principles or business conditions.
- 2.29 “Performance Goals”** means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such

Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (b) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

- 2.30 “Performance Period”** means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, a performance-based Award.
- 2.31 “Performance Share”** means a right granted to a Participant pursuant to Section 8.1, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.
- 2.32 “Performance Stock Unit”** means a right granted to a Participant pursuant to Section 8.2, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.
- 2.33 “Plan”** means this PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan, as it may be amended from time to time.
- 2.34 “Restricted Stock”** means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.
- 2.35 “Restricted Stock Unit”** means an Award granted pursuant to Section 8.6.
- 2.36 “Securities Act”** shall mean the U.S. Securities Act of 1933, as amended.
- 2.37 “Spin-Off”** means the distribution of shares of Stock to the stockholders of eBay Inc. on July 17, 2015, pursuant to the Separation and Distribution Agreement between the Company and eBay Inc., dated as of June 26, 2015, entered into in connection with such distribution.
- 2.38 “Stock”** means the common stock of the Company, par value \$0.0001 per share, and such other securities of the Company that may be substituted for Stock pursuant to Article 12.
- 2.39 “Stock Appreciation Right” or “SAR”** means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.
- 2.40 “Stock Payment”** means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of a benefit or compensation, granted pursuant to Section 8.4.
- 2.41 “Subsidiary”** means any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if, at the time of the determination, each of the entities other than the last entity in the unbroken chain beneficially owns securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.
- 2.42 “Substitute Award”** shall mean an Option or SAR granted under the Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an Option.
- 2.43 “Termination of Service”** shall mean,
- (a) As to a Consultant, the time when the engagement of a Participant as a Consultant to the Company or a Subsidiary is terminated for any reason, with or without cause, including, without limitation, by resignation, discharge, death or retirement, but excluding a termination where there is a simultaneous commencement of employment with the Company or any Subsidiary.
  - (b) As to a Non-Employee Director or Independent Director, the time when a Participant who is a Non-Employee Director or Independent Director ceases to be a Director for any reason, including, without limitation, a termination by



resignation, failure to be elected, death or retirement, but excluding: (i) a termination where there is simultaneous employment by the Company or a Subsidiary of such person and (ii) a termination which is followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with such person.

- (c) As to an Employee, the time when the Participant has ceased to actively be employed by or to provide services to the Company or any Subsidiary for any reason, without limitation, including resignation, discharge, death, disability or retirement; but excluding: (i) a termination where there is a simultaneous reemployment or continuing employment of a Participant by the Company or any Subsidiary, (ii) a termination which is followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with the former employee, and (iii) a termination where a Participant simultaneously becomes an Independent Director.
- (d) The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Service, including, without limitation, questions relating to the nature and type of Termination of Service, and all questions of whether particular leaves of absence constitute Termination of Service; provided, however, that, with respect to Incentive Stock Options, unless the Committee otherwise provides in the terms of the Award Agreement, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Service if, and to the extent that, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section. For purposes of the Plan, a Participant shall be deemed to have a Termination of Service in the event that the Subsidiary employing or contracting with such Participant ceases to remain a Subsidiary following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off).

## ARTICLE 3. SHARES SUBJECT TO THE PLAN

### 3.1 Number of Shares.

- (a) Subject to Article 11 and Section 3.1(b), the aggregate number of shares of Stock which may be issued or transferred pursuant to Awards granted under the Plan is 14,500,000 which includes the aggregate number of shares of Stock subject to all Assumed Spin-Off Awards. Any shares of Stock that are subject to Awards granted under the Plan on or after the 2016 annual meeting of the Company's stockholders (the **"2016 Annual Meeting"**) other than Full Value Awards shall be counted against this limit as 0.50 shares for every share of Stock subject to the Award granted. Any shares of Stock that are subject to Full Value Awards granted under the Plan shall be counted against this limit as one (1) share for every share of Stock subject to the Award granted.
- (b) To the extent that an Award terminates, expires, or lapses for any reason, or such an Award is settled in cash without delivery of shares to the Participant, then any shares of Stock subject to the Award shall again be available for the grant of an Award pursuant to the Plan. Any such shares of Stock that cease to be subject to such an Award other than a Full Value Award shall be added to the number of shares available under the Plan as the number of shares of Stock (or portion thereof) deemed subject to such Award under Section 3.1(a) as of the date of grant for every share of Stock that ceases to be subject to such Award. Any such shares of Stock that cease to be subject to a Full Value Award shall be added to the number of shares available under the Plan as one (1) share for every share of Stock that ceases to be subject to such Award. Notwithstanding anything in this Section 3.1(b) to the contrary, shares of Stock subject to an Award may not again be made available for issuance under this Plan if such shares are: (x) shares delivered to or withheld by the Company to pay the exercise price of an Option or SAR, (y) shares delivered to or withheld by the Company to satisfy withholding taxes related to such an Award or (z) shares that were subject to an Award and were not issued upon the net settlement of such Award. To the extent permitted by applicable law or any exchange rule, shares of Stock issued in assumption of, or in substitution for, any outstanding Awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against shares of Stock available for grant pursuant to this Plan. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan. Notwithstanding the provisions of this Section 3.1(b), no shares of Stock may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

**3.2 Stock Distributed.** Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

**3.3 Limitation on Number of Shares Subject to Awards.** Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Participant during any calendar year shall be 2,000,000 and the maximum amount that may be paid in cash during any calendar year with respect to any performance-based Award (including, without limitation, any Performance Bonus Award) shall be \$3,000,000; provided, however, that such limits shall apply without regard to the Assumed Spin-Off Awards. Any shares of Stock that are subject to Awards granted under the Plan on or after the 2016 Annual Meeting other than Full Value Awards shall be counted against this limit as 0.50 shares for every share of Stock subject to the Award granted. Any shares of Stock that are subject to Full Value Awards granted under the Plan shall be counted against this limit as one (1) share for every share of Stock subject to the Award granted. Awards to Non-Employee Directors and Independent Directors are subject to the limits set forth in Article 10.

## ARTICLE 4. ELIGIBILITY AND PARTICIPATION

- 4.1 Participation.** Subject to the provisions of the Plan, the Committee may, from time to time, and in its sole discretion, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan. In connection with the Spin-Off and pursuant to the terms of the Employee Matters Agreement between the Company and eBay Inc., entered into in connection with the Spin-Off, certain employees, consultants and directors of the Company, eBay Inc. and their respective subsidiaries will receive Assumed Spin-Off Awards.
- 4.2 Foreign Participants.** Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have Eligible Individuals, the Committee, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which Eligible Individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to Eligible Individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable, including adoption of rules, procedures or sub-plans applicable to particular Subsidiaries or Participants residing in particular locations; provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan; and (v) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals. Without limiting the generality of the foregoing, the Committee is specifically authorized to adopt rules, procedures and sub-plans with provisions that limit or modify rights on eligibility to receive an Award under the Plan or on death, disability, retirement or other Termination of Service, available methods of exercise or settlement of an Award, payment of income, social insurance contributions and payroll taxes, the shifting of employer tax liability to the Participant, the withholding procedures and handling of any Stock certificates or other indicia of ownership. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act, the Code, any securities law or governing statute or any other law applicable to the Stock or the issuance of Stock under the Plan.

## ARTICLE 5. STOCK OPTIONS

- 5.1 General.** The Committee is authorized to grant Options to Eligible Individuals on the following terms and conditions:
- (a) Exercise Price.** The exercise price per share of Stock subject to an Option shall be determined by the Committee and set forth in the Award Agreement; provided, that, subject to Section 5.4, the exercise price for any Option shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant.
  - (b) Time and Conditions of Exercise.** The Committee shall determine the time or times at which an Option may be exercised in whole or in part; provided, that the term of any Option granted under the Plan shall not exceed ten years. The Committee shall determine the time period, including the time period following a Termination of Service, during which the Participant has the right to exercise the vested Options, which time period may not extend beyond the term of the Option. Except as limited by the requirements of Section 409A or Section 422 of the Code and regulations and rulings thereunder, the Committee may extend the term of any outstanding Option, and may extend the time period during which vested Options may be exercised, in connection with any Termination of Service of the Participant, and may amend any other term or condition of such Option relating to such a Termination of Service. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised.
  - (c) Evidence of Grant.** All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.
- 5.2 Incentive Stock Options.** Incentive Stock Options shall be granted only to Employees and the terms of any Incentive Stock Options granted pursuant to the Plan, in addition to the requirements of Section 5.1, must comply with the provisions of this Section 5.2.
- (a) Expiration.** Subject to Section 5.2(c), an Incentive Stock Option shall expire and may not be exercised to any extent by anyone after the first to occur of the following events:
    - (i)** Ten years from the date it is granted, unless an earlier time is set in the Award Agreement;
    - (ii)** Three months after the Participant's termination of employment as an Employee; and
    - (iii)** One year after the date of the Participant's termination of employment or service on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.
  - (b) Dollar Limitation.** The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.



- (c) **Ten Percent Owners.** An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) and the Option is exercisable for no more than five years from the date of grant.
- (d) **Notice of Disposition.** The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such shares of Stock to the Participant.
- (e) **Right to Exercise.** During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.
- (f) **Failure to Meet Requirements.** Any Option (or portion thereof) purported to be an Incentive Stock Option, which, for any reason, fails to meet the requirements of Section 422 of the Code shall be considered a Non-Qualified Stock Option.

**5.3 Substitution of Stock Appreciation Rights.** Subject to Section 9.8, the Committee may provide in the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option; provided, that such Stock Appreciation Right shall be exercisable with respect to the same number of shares of Stock for which such substituted Option would have been exercisable.

**5.4 Substitute Awards.** Notwithstanding the foregoing provisions of this Article 5 to the contrary, in the case of an Option that is a Substitute Award, the exercise price per share of the shares subject to such Option may be less than the Fair Market Value per share on the date of grant, provided, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

## ARTICLE 6. RESTRICTED STOCK AWARDS

### 6.1 Grant of Restricted Stock.

- (a) The Committee is authorized to make Awards of Restricted Stock to any Eligible Individual selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by an Award Agreement.
- (b) The Committee shall establish the purchase price, if any, and form of payment for Restricted Stock; provided, however, that such purchase price shall be no less than the par value of the Stock to be purchased, unless otherwise permitted by applicable state law. In all cases, legal consideration shall be required for each issuance of Restricted Stock.

**6.2 Issuance and Restrictions.** All shares of Restricted Stock (including any shares received by Participants thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Award Agreement, be subject to such restrictions on transferability and other restrictions and vesting requirements as the Committee shall provide. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Committee, including, without limitation, criteria based on the Participant's duration of employment, directorship or consultancy with the Company, Performance Criteria, Company performance, individual performance or other criteria selected by the Committee. By action taken after the Restricted Stock is issued, the Committee may, on such terms and conditions as it may determine to be appropriate, accelerate the vesting of such Restricted Stock by removing any or all of the restrictions imposed by the terms of the Award Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire.

**6.3 Repurchase or Forfeiture of Restricted Stock.** If no price was paid by the Participant for the Restricted Stock, upon a Termination of Service the Participant's rights in unvested Restricted Stock then subject to restrictions shall lapse, and such Restricted Stock shall be surrendered to the Company without consideration. If a price was paid by the Participant for the Restricted Stock, upon a Termination of Service the Company shall have the right to repurchase from the Participant the unvested Restricted Stock then subject to restrictions at a cash price per share equal to the price paid by the Participant for such Restricted Stock or such other amount as may be specified in the Award Agreement. The Committee in its discretion may provide that in the event of certain events, including a Change in Control, the Participant's death, retirement or disability or any other specified Termination of Service or any other event, the Participant's rights in unvested Restricted Stock shall not lapse, such Restricted Stock shall vest and, if applicable, the Company shall not have a right of repurchase.

**6.4 Certificates for Restricted Stock.** Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the

Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

- 6.5 Section 83(b) Election.** If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

## ARTICLE 7. STOCK APPRECIATION RIGHTS

### 7.1 Grant of Stock Appreciation Rights.

- (a) A Stock Appreciation Right may be granted to any Eligible Individual selected by the Committee. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.
- (b) A Stock Appreciation Right shall entitle the Participant (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount equal to the product of (i) the excess of (A) the Fair Market Value of the Stock on the date the Stock Appreciation Right is exercised over (B) the Fair Market Value of the Stock on the date the Stock Appreciation Right was granted and (ii) the number of shares of Stock with respect to which the Stock Appreciation Right is exercised, subject to any limitations the Committee may impose. Except as described in (c) below, the exercise price per share of Stock subject to each Stock Appreciation Right shall be set by the Committee, but shall not be less than 100% of the Fair Market Value on the date the Stock Appreciation Right is granted.
- (c) Notwithstanding the foregoing provisions of Section 7.1(b) to the contrary, in the case of a Stock Appreciation Right that is a Substitute Award, the price per share of the shares subject to such Stock Appreciation Right may be less than the Fair Market Value per share on the date of grant; provided, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

### 7.2 Payment and Limitations on Exercise.

- (a) Subject to Sections 7.2(b) payment of the amounts determined under Section 7.1(b) above shall be in cash, in Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee in the Award Agreement and subject to any tax withholding requirements.
- (b) To the extent any payment under Section 7.1(b) is effected in Stock, it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options.

## ARTICLE 8. OTHER TYPES OF AWARDS

- 8.1 Performance Share Awards.** Any Eligible Individual selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

- 8.2 Performance Stock Units.** Any Eligible Individual selected by the Committee may be granted one or more Performance Stock Unit awards which shall be denominated in unit equivalent of shares of Stock and/or units of value including dollar value of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

### 8.3 Dividend Equivalents.

- (a) Any Eligible Individual selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee; provided, that to the extent shares of Stock subject to an Award are subject to vesting conditions, any Dividend Equivalents relating to such shares shall be subject to the same vesting conditions.

(b) Notwithstanding the foregoing, no Dividend Equivalents shall be payable with respect to Options or SARs.

- 8.4 Stock Payments.** Any Eligible Individual selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.
- 8.5 Deferred Stock Units.** Any Eligible Individual selected by the Committee may be granted an award of Deferred Stock Units in the manner determined from time to time by the Committee. The number of shares of Deferred Stock Units shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, including service to the Company or any Subsidiary, in each case on a specified date or dates or over any period or periods determined by the Committee. Stock underlying a Deferred Stock Unit award will not be issued until the Deferred Stock Unit award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock Units shall have no rights as a Company stockholder with respect to such Deferred Stock Units until such time as the Deferred Stock Unit Award has vested and the Stock underlying the Deferred Stock Unit Award has been issued.
- 8.6 Restricted Stock Units.** The Committee is authorized to make Awards of Restricted Stock Units to any Eligible Individual selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. The Committee shall specify, or permit the Participant to elect, the conditions and dates upon which the shares of Stock underlying the Restricted Stock Units shall be issued, which dates shall not be earlier than the date as of which the Restricted Stock Units vest and become nonforfeitable and which conditions and dates shall be subject to compliance with Section 409A of the Code. On the distribution dates, the Company shall, subject to Section 9.6(b), transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited.
- 8.7 Performance Bonus Awards.** Any Eligible Individual selected by the Committee may be granted one or more performance-based Awards in the form of a cash bonus (a "Performance Bonus Award") payable upon the attainment of Performance Goals that are established by the Committee and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Committee.
- 8.8 Term.** Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock Units or Restricted Stock Units shall be set by the Committee in its discretion.
- 8.9 Exercise or Purchase Price.** The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Stock Units, Deferred Stock Units, Stock Payments or Restricted Stock Units; provided, however, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.
- 8.10 Exercise or Payment upon Termination of Service.** An Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Deferred Stock Units, Stock Payments and Restricted Stock Units shall only be exercisable or payable while the Participant is an Employee, Consultant or Director, as applicable; provided, however, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock Units or Restricted Stock Units may be exercised or paid subsequent to a Termination of Service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise.
- 8.11 Form of Payment.** Payments with respect to any Awards granted under this Article 8 shall be made in cash, in Stock or a combination of both, as determined by the Committee and set forth in the applicable Award Agreement.
- 8.12 Award Agreement.** All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by an Award Agreement.

## ARTICLE 9. PROVISIONS APPLICABLE TO AWARDS

- 9.1 Stand-Alone and Tandem Awards.** Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.
- 9.2 Award Agreement.** Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the

Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

**9.3 Payment.** The Committee shall determine the methods by which payments by any Participant with respect to any Awards granted under the Plan may be paid, the form of payment including, without limitation: (i) cash, (ii) shares of Stock (including, in the case of payment of the exercise price of an Award, shares of Stock issuable pursuant to the exercise of the Award) held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate payments required, or (iii) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale). The Committee shall also determine the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

**9.4 Limits on Transfer.**

- (a) Except as otherwise provided in Section 9.4(b):
- (i) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a DRO, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed;
  - (ii) No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Participant or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence; and
  - (iii) During the lifetime of the Participant, only the Participant may exercise an Award (or any portion thereof) granted to him under the Plan, unless it has been disposed of pursuant to a DRO; after the death of the Participant, any exercisable portion of an Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by his personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.
- (b) Notwithstanding Section 9.4(a), the Committee, in its sole discretion, may determine to permit a Participant to transfer an Award other than an Incentive Stock Option to any one or more Permitted Transferees (as defined below), subject to the following terms and conditions: (i) an Award transferred to a Permitted Transferee shall not be assignable or transferable by the Permitted Transferee other than by will or the laws of descent and distribution; (ii) an Award transferred to a Permitted Transferee shall continue to be subject to all the terms and conditions of the Award as applicable to the original Participant (other than the ability to further transfer the Award); and (iii) the Participant and the Permitted Transferee shall execute any and all documents requested by the Committee, including, without limitation documents to (A) confirm the status of the transferee as a Permitted Transferee, (B) satisfy any requirements for an exemption for the transfer under applicable federal, state and foreign securities laws and (C) evidence the transfer. For purposes of this Section 9.4(b), "**Permitted Transferee**" shall mean, with respect to a Participant, any "family member" of the Participant, as defined under the instructions to the Form S-8 Registration Statement under the Securities Act, or any other transferee specifically approved by the Committee after taking into account any state, federal, local or foreign tax and securities laws applicable to transferable Awards.

**9.5 Beneficiaries.** Notwithstanding Section 9.4, if provided in the applicable Award Agreement, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary designation is provided in the applicable Award Agreement or if no beneficiary has been designated or survives the Participant (or if a beneficiary designation is not enforceable and/or valid under the inheritance and other laws in the Participant's country, as determined by the Committee in its sole discretion), payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution.

Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

## 9.6 Stock Certificates; Book Entry Procedures.

- (a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates or make any book entries evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such shares is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.
- (b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any applicable law, rule or regulation, the Company shall not deliver to any Participant certificates evidencing shares of Stock issued in connection with any Award and instead such shares of Stock shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

**9.7 Paperless Administration.** In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

**9.8 Prohibition on Repricing.** Subject to Section 11.1, the Committee shall not, without the approval of the stockholders of the Company, authorize the amendment of any outstanding Award to reduce its price per share. Furthermore, subject to Section 12.1, no Award shall be canceled and replaced or substituted for with the grant of an Award having a lesser price per share without the further approval of stockholders of the Company. Subject to Section 11.1, the Committee shall have the authority, without the approval of the stockholders of the Company, to amend any outstanding award to increase the price per share or to cancel and replace or substitute for an Award with the grant of an Award having a price per share that is greater than or equal to the price per share of the original Award. Subject to Section 11.1, absent the approval of the stockholders of the Company, the Committee shall not offer to buyout for a payment in cash, an Option or Stock Appreciation Right previously granted when the per share exercise price exceeds the Fair Market Value of the underlying share of stock.

**9.9 Award Vesting Limitations.** Notwithstanding any other provision of the Plan to the contrary, but subject to Sections 6.2, 11.1, 11.2 and 12.3(d) of the Plan, effective as of the 2018 annual meeting of the Company's stockholders (the "2018 Annual Meeting"), no portion of Awards granted under the Plan shall vest before the one-year anniversary of the date of grant; provided, however, that, notwithstanding the foregoing, Awards that result in the issuance to one or more Participants of an aggregate of up to 5% of the shares of Stock which may be issued or transferred under the Plan may be granted without regard to such minimum vesting provisions. Nothing in this Section 9.9 shall preclude the Board or the Committee from taking action, in its sole discretion, to accelerate the vesting of any Award in connection with or following a Change in Control.

**9.10 Dividends on Unvested Awards.** To the extent shares of Stock subject to an Award are subject to vesting conditions, any dividends related to such unvested shares of Stock shall be subject to the same vesting conditions.

## ARTICLE 10. INDEPENDENT DIRECTOR AWARDS

**10.1** The Board may grant Awards to Independent Directors, subject to the limitations of the Plan, pursuant to a written non-discretionary formula established by the Committee, or any successor committee thereto carrying out its responsibilities on the date of grant of any such Award (the "Independent Director Equity Compensation Policy"). The Independent Director Equity Compensation Policy shall set forth the type of Award(s) to be granted to Independent Directors, the number of shares of Stock to be subject to Independent Director Awards, the conditions on which such Awards shall be granted, become exercisable and/or payable and expire, and such other terms and conditions as the Committee (or such other successor committee as described above) shall determine in its discretion, except that any Assumed Spin-Off Awards shall be subject to the terms as in existence as of the completion of the Spin-Off.

**10.2** Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value of shares of Stock that may be granted during any fiscal year of the Company to any Non-Employee Director or Independent Director shall not



exceed \$600,000; provided, however, that (i) the limit set forth in this sentence shall be multiplied by two in the fiscal year in which a Non-Employee Director or Independent Director commences service on the Board, and (ii) the limit set forth in this sentence shall not apply to awards made pursuant to a Non-Employee Director's or Independent Director's election to receive an Award in lieu of all or a portion of a cash retainer for service on the Board or any committee thereunder or pursuant to conversion of an eBay Inc. award to a Company award.

## ARTICLE 11. CHANGES IN CAPITAL STRUCTURE

### 11.1 Adjustments.

- (a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of Stock or the share price of the Stock other than an Equity Restructuring, the Committee shall make such equitable adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (i) the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3); (ii) the number and kind of shares (or other securities or property) subject to outstanding Awards; (iii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iv) the grant or exercise price per share for any outstanding Awards under the Plan.
- (b) In the event of any transaction or event described in Section 11.1 or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any of its affiliates, or of changes in applicable laws, regulations or accounting principles, the Committee, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:
  - (i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 11.1 the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;
  - (ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;
  - (iii) To make adjustments in the number and type of shares of Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock Units and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;
  - (iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and
  - (v) To provide that the Award cannot vest, be exercised or become payable after such event.
- (c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 11.1(a) and 11.1(b):
  - (i) The number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, will be equitably adjusted. The adjustments provided under this Section 11.1(c)(i) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company.
  - (ii) The Committee shall make such equitable adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3).
  - (iii) To the extent that such equitable adjustments result in tax consequences to the Participant, the Participant shall be responsible for payment of such taxes and shall not be compensated for such payments by the Company or its Subsidiaries.
- (d) The existence of the Plan, the Award Agreement and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Stock or the rights thereof or

which are convertible into or exchangeable for Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

## 11.2 Acceleration Upon a Change in Control.

- (a) Notwithstanding Section 11.1, subject to Section 11.2(b) below, and except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company and a Participant, if a Change in Control occurs and a Participant's Awards are not converted, assumed, or replaced by a successor entity, then immediately prior to the Change in Control such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change in Control, the Committee may cause any and all Awards outstanding hereunder to terminate at a specific time in the future, including but not limited to the date of such Change in Control, and shall give each Participant the right to exercise such Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine. In the event that the terms of any agreement between the Company or any Company subsidiary or affiliate and a Participant contains provisions that conflict with and are more restrictive than the provisions of this Section 11.2, this Section 11.2 shall prevail and control and the more restrictive terms of such agreement (and only such terms) shall be of no force or effect. Further, to the extent that there are tax consequences to the Participant as a result of the acceleration or lapsing of forfeiture restriction upon a Change in Control, the Participant shall be responsible for payment of such taxes and shall not be compensated for such payment by the Company or its Subsidiaries.
- (b) Except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company and a Participant, if a Change in Control occurs during the Performance Period with respect to an outstanding Award that vests based on Performance Goal(s) or other performance-based objectives, the Performance Period of such Award shall end as of the date of the Change in Control and the Performance Goal(s) or other performance-based objectives shall be deemed to have been satisfied at the actual level of performance as of the date of the Change in Control, as determined by the Committee, as constituted immediately prior to the Change in Control, without proration, and such Award, to the extent deemed earned by the Committee, shall continue to be subject to time-based vesting following the Change in Control in accordance with the original vesting schedule; provided, however, that if the Awards are not converted, assumed, or replaced by a successor entity, then immediately prior to the Change in Control such Awards shall become fully vested pursuant to Section 12.2(a) above.

- 11.3 No Other Rights.** Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

## ARTICLE 12. ADMINISTRATION

- 12.1 Committee.** Except as otherwise provided herein, the Plan shall be administered by a committee consisting of two or more members of the Board (the "**Committee**"). Unless otherwise determined by the Board, the Committee shall consist solely of two or more members of the Board each of whom is a Non-Employee Director and an "independent director" under the rules of the Nasdaq Stock Market (or other principal securities market on which shares of Stock are traded); provided, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Independent Directors and for purposes of such Awards the term "Committee" as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 12.5. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. Except as may otherwise be provided in any charter of the Committee, appointment of Committee members shall be effective upon acceptance of appointment; Committee members may resign at any time by delivering written notice to the Board; and vacancies in the Committee may only be filled by the Board.
- 12.2 Action by the Committee.** Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

- 12.3 Authority of Committee.** Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:
- (a) Designate Participants to receive Awards;
  - (b) Determine the type or types of Awards to be granted to each Participant;
  - (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;
  - (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for vesting, lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines; provided, however, that, except as provided in Article 11 of the Plan, the Committee shall not have the authority to accelerate the vesting or waive the forfeiture of any performance-based Awards;
  - (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
  - (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
  - (g) Decide all other matters that must be determined in connection with an Award;
  - (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan, including adopting sub-plans to the Plan or special terms for Award Agreements, for the purposes of complying with non-U.S. laws and/or taking advantage of tax favorable treatment for Awards granted to Participants outside the United States (as further set forth in Section 4.2 of the Plan) as it may deem necessary or advisable to administer the Plan;
  - (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
  - (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

**12.4 Decisions Binding.** The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

**12.5 Delegation of Authority.** To the extent permitted by applicable law, the Board or the Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards to Participants or to exercise any of the power, authority and discretion granted to the Committee pursuant to Section 12.3; provided, that (i) the Committee shall have the sole authority with respect to Awards granted to or held by Employees who are subject to Section 16 of the Exchange Act and (ii) officers of the Company (or Directors) to whom authority has been delegated hereunder shall not be delegated such authority with respect to Awards granted to or held by such officers (or Directors). Any delegation hereunder shall be subject to the restrictions and limits that the Board or the Committee specifies at the time of such delegation, and the Board or the Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.5 shall serve in such capacity at the pleasure of the Board or the Committee.

## ARTICLE 13. EFFECTIVE AND EXPIRATION DATE

**13.1 Effective Date.** The effective date of this Plan is the date the Plan (as it may be amended and/or restated from time to time) is last approved by the Company's stockholders (the "**Effective Date**"). Each award granted under the Plan or subject to a written binding contract on or before November 2, 2017 shall be subject to the Plan as in effect as of the date on which such award was granted, and it is intended that each such award continue to be subject to Section 162(m) of the Code as in effect prior to the enactment of the Tax Cuts and Jobs Act.

**13.2 Expiration Date.** The Plan will expire on, and no Award may be granted pursuant to the Plan after the tenth anniversary of the Effective Date, except that no Incentive Stock Options may be granted under the Plan after the earlier of the tenth anniversary of (a) the date the Plan is approved by the Board or (b) the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

## ARTICLE 14. AMENDMENT, MODIFICATION, AND TERMINATION

**14.1 Amendment, Modification, and Termination.** Subject to Section 15.16, with the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; provided, however, that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) stockholder approval shall be required for any amendment to the Plan that (i) increases the number of shares available under the Plan (other than any adjustment as provided by Article 12), (ii) permits the Committee to grant Options with an exercise price that is below Fair



Market Value on the date of grant, (iii) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant or (iv) amends Section 9.8 of the Plan.

- 14.2 Awards Previously Granted.** Except with respect to amendments made pursuant to Section 15.16, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

## ARTICLE 15. GENERAL PROVISIONS

- 15.1 No Rights to Awards.** No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.
- 15.2 No Stockholders Rights.** Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to shares of Stock covered by any Award until the Participant becomes the record owner of such shares of Stock.
- 15.3 Withholding.** The Company or any Subsidiary shall have the authority and the right to deduct or withhold (by any means set forth herein or in an Award Agreement), or require a Participant to remit to the Company or a Subsidiary, an amount sufficient to satisfy federal, state, local and foreign income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to participation in the Plan and legally applicable to Participant and required by law to be withheld (including any amount deemed by the Company or the Participant's employer, in its discretion, to be an appropriate charge to the Participant even if legally applicable to the Company or the Participant's employer). The Committee may, in its discretion and in satisfaction of the foregoing requirement, allow a Participant to elect to have the Company withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award within six months (or such other period as may be determined by the Committee) after such shares of Stock were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award (as described above) shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding amounts or other applicable withholding rates to the extent that the withholding or repurchase of shares in excess of such minimum statutory amount would result in adverse accounting consequences to the Company.
- 15.4 No Right to Employment or Services.** Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.
- 15.5 Unfunded Status of Awards.** The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.
- 15.6 Assumed Spin-Off Awards.** Notwithstanding anything in this Plan to the contrary, each Assumed Spin-Off Award shall be subject to the terms and conditions of the equity compensation plan and award agreement to which such Award was subject immediately prior to the Spin-Off, subject to the adjustment of such Award by the Compensation Committee of eBay Inc. and the terms of the Employee Matters Agreement, dated as of July 17, 2015, between the Company and eBay Inc. entered into in connection with the Spin-Off; provided, that following July 17, 2015, each such Award shall relate solely to shares of Stock and be administered by the Committee in accordance with the administrative procedures in effect under this Plan.
- 15.7 Indemnification.** To the extent allowable pursuant to applicable law, each member of the Committee or of the Board and each person to whom the Committee delegates its authority under Section 12.5 shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.
- 15.8 Relationship to Benefits.** No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any severance, resignation, termination, redundancy, end of service payments, long-term service awards, pension, retirement, savings, profit sharing, group insurance, welfare or benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

- 15.9 Effect of Plan upon Compensation Plans.** The adoption of the Plan shall not affect any compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in the Plan shall be construed to limit the right of the Company or any Subsidiary: (a) to establish any forms of incentives or compensation for Employees, Directors or Consultants of the Company or any Subsidiary, or (b) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including, without limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.
- 15.10 Awards Subject to Clawback.** The Awards and any cash payment or shares of Stock delivered pursuant to an Award are subject to forfeiture, recovery by the Company or other action pursuant to the applicable Award Agreement or any clawback or recoupment policy which the Company may adopt from time to time, including without limitation any such policy which the Company may be required to adopt under the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing rules and regulations thereunder, or as otherwise required by law.
- 15.11 Expenses.** The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.
- 15.12 Titles and Headings.** The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.
- 15.13 Fractional Shares.** No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.
- 15.14 Limitations Applicable to Section 16 Persons.** Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.
- 15.15 Compliance with Laws.** The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of shares of Stock and the payment of money under the Plan or under Awards granted or awarded hereunder are subject to compliance with all applicable federal, state, local and foreign laws, rules and regulations (including but not limited to state, federal and foreign securities law and margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The Company shall have no obligation to issue or deliver shares of Stock prior to obtaining any approvals from listing, regulatory or governmental authority that the Company determines are necessary or advisable. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. The Company shall be under no obligation to register pursuant to the Securities Act, any of the shares of Stock paid pursuant to the Plan. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.
- 15.16 Governing Law.** The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflict of laws of that State.
- 15.17 Section 409A.** To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

# APPENDIX B

## PayPal Holdings, Inc. Amended and Restated Employee Stock Purchase Plan

**1. Establishment of Plan.** The board of directors (the “**Board**”) of PayPal Holdings, Inc. (the “**Company**”) has, effective as of July 17, 2015, established this Employee Stock Purchase Plan pursuant to which the Company may grant options to purchase shares of the Company’s common stock (“**Common Stock**”) to Eligible Employees (as defined in Section 4 below). The Employee Stock Purchase Plan has been amended and restated by the Board on March 28, 2018, subject to approval of the Company’s stockholders pursuant to Section 23 hereof (such date, the “**Amendment Effective Date**”). The Employee Stock Purchase Plan, as amended and restated, is referred to herein as the “**Plan**.”

This Plan includes two components: (a) a component intended to qualify as an “employee stock purchase plan” under Section 423 of the Code (the “**423 Component**”), the provisions of which shall be construed so as to extend and limit participation in a uniform and nondiscriminatory manner consistent with the requirements of Section 423 of the Code; and (b) a component that does not qualify as an “employee stock purchase plan” under Section 423 of the Code (the “**Non-423 Component**”), under which options shall be granted pursuant to rules, procedures or sub-plans adopted by the Administrator (as defined in Section 3 below) designed to achieve tax, securities laws or other objectives for Eligible Employees, the Company and its Participating Subsidiaries and Participating Affiliates (both, as hereinafter defined). Except as otherwise provided in this Plan, the Non-423 Component will operate and be administered in the same manner as the 423 Component.

For purposes of this Plan, “**Subsidiary**” means a “subsidiary corporation” of the Company, whether now or hereafter existing, as such term is defined in Section 424(f) of the Code. “**Participating Subsidiary**” means any Subsidiary that the Administrator designates from time to time as eligible to participate in the 423 Component. For purposes of this Plan, “**Affiliate**” means (a) any entity that, directly or indirectly, is controlled by, controls or is under common control with, the Company and (b) any entity in which the Company has a significant equity interest, in either case as determined by the Administrator, whether now or hereafter existing (which, for avoidance of doubt, shall include any Subsidiary). “**Participating Affiliate**” means any Affiliate designated by the Administrator as eligible to participate in the Non-423 Component. For purposes of this Plan, “**Code**” means the United States Internal Revenue Code of 1986, as amended; reference to a specific section of the Code or United States Treasury Regulation thereunder will include such section or regulation, any valid regulation or other official applicable guidance promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

As of the Amendment Effective Date, a total of 62,000,000 shares of Common Stock are reserved for issuance under this Plan, which reflects an increase of 50,000,000 shares over the number of shares initially reserved for issuance. Such number shall be subject to adjustments effected in accordance with Section 14 of this Plan.

**2. Purpose.** The purpose of this Plan is to provide Eligible Employees with a convenient means of acquiring an equity interest in the Company through payroll deductions or other contributions, to enhance such employees’ sense of participation in the affairs of the Company.

### 3. Administration.

(a) This Plan shall be administered by the Compensation Committee of the Board (the “**Administrator**”), provided, however, that the Board may determine to administer the Plan, in its sole discretion, and in such case any references to the Administrator in the Plan shall be taken to be references to the Board. Subject to the provisions of the Plan, the Administrator shall have exclusive authority, in its sole discretion, to determine all matters relating to options granted under the Plan, including, without limitation, the authority to: (i) construe, interpret, reconcile any inconsistency in, correct any default in, supply any omission in, and apply the terms of, the Plan and any subscription agreement or other instrument or agreement relating to the Plan, (ii) adjudicate all disputed claims filed under the Plan (including making factual determinations), (iii) determine the terms and conditions of any Offering (as defined in Section 5 below) and any option under the Plan, (iv) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan, and (v) make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan.

(b) The Administrator shall have exclusive authority, in its sole discretion, to (i) designate separate Offerings under the Plan, (ii) determine which entities shall be Participating Subsidiaries or Participating Affiliates, (iii) determine who is an Eligible Employee, (iii) change the length and duration of Offering Periods and Purchase Periods (as such terms are defined in Section 5 below), (iv) limit the frequency and/or number of changes in the amount deducted or contributed during an Offering Period or Purchase Period, (v) permit payroll deductions or other contributions in excess of the amount designated by a participant in the Plan in order to adjust for administrative errors in the Company’s processing of properly submitted subscription agreements and/or changes in contribution amounts, (vi) establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Plan participant properly correspond

with payroll deductions or other contribution amounts, and (vii) establish such other limitations or procedures as the Administrator determines in its sole discretion advisable that are consistent with the Plan.

(c) Further, the Administrator may adopt such rules, procedures and sub-plans as are necessary or appropriate to permit the participation in the Plan by Eligible Employees who are citizens or residents of a non-U.S. jurisdiction and/or employed outside the United States, the terms of which sub-plans may take precedence over other provisions of this Plan, with the exception of the provision in Section 1 above setting forth the number of shares of Common Stock reserved for issuance under the Plan, but unless otherwise superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan. To the extent inconsistent with the requirements of Section 423, any such sub-plan shall be considered part of the Non-423 Component, and rights granted thereunder shall not be required by the terms of the Plan to comply with Section 423 of the Code. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding eligibility to participate, the application of the definition of Compensation (as defined in Section 9(b) below) to participants on payrolls outside of the United States, handling of payroll deductions and other contributions, taking of payroll deductions and making of other contributions to the Plan, establishment of bank or trust accounts to hold contributions, payment of interest, establishment of the exchange rate applicable to payroll deductions taken and other contributions made in a currency other than U.S. dollars, obligations to pay payroll tax, determination of beneficiary designation requirements, tax withholding procedures and handling of stock certificates that vary with applicable local requirements.

(d) The Administrator's interpretation of the Plan and its rules and regulations, and all actions taken and determinations made by the Administrator pursuant to the Plan, shall be conclusive and binding on all parties involved or affected. The Administrator may delegate its duties and authority to such of the Company's officers or employees as it so determines.

#### 4. Eligibility.

(a) Unless otherwise provided in this Section 4 and subject to the requirements of Section 6, any Eligible Employee on a given Offering Date (as defined in Section 5 below) shall be eligible to participate in the Plan.

(b) For purposes of this Plan, "**Eligible Employee**" means any individual who is treated as an employee in the records of the Company or any Participating Subsidiary or Participating Affiliate, in each case regardless of any subsequent reclassification by the Company or by any Participating Subsidiary or Participating Affiliate, any governmental agency, or any court, and subject to the qualifications set forth in this section.

(c) For purposes of this Plan, the employment relationship shall be treated as continuing intact while the individual is on military or sick leave or other bona fide leave of absence approved by the Company or the applicable Participating Subsidiary or Participating Affiliate so long as the leave does not exceed three (3) months or, if longer than three (3) months, the individual's right to reemployment is provided by statute or has been agreed to by contract or in a written policy of the Company or the applicable Participating Subsidiary or Participating Affiliate which provides for a right of reemployment following the leave of absence.

(d) Notwithstanding the foregoing, for all options to be granted on an Offering Date, the definition of Eligible Employee will not include an individual, if (i) the individual is not employed by the Company or a Participating Subsidiary or Participating Affiliate, as applicable, ten (10) business days before the beginning of such Offering Period (or for such other period permitted by Code Section 423 and determined by the Administrator), and/or (ii) the employee, together with any other person whose stock would be attributed to such employee pursuant to Section 424(d) of the Code, owns stock or holds options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary or who, as a result of being granted an option under this Plan with respect to such Offering Period, would own stock or hold options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary.

(e) The Administrator, in its sole discretion, from time to time may, prior to an Offering Date for all options to be granted on such Offering Date, determine (on a uniform and nondiscriminatory basis or as otherwise permitted by U.S. Treasury Regulation Section 1.423-2 for options granted under the 423 Component) that the definition of Eligible Employee will or will not include an individual if he or she: (i) customarily works twenty (20) hours or less per week (or such lesser period of time as may be determined by the Administrator in its sole discretion), or (ii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its sole discretion). Under the 423 Component, such exclusions shall be applied with respect to an Offering in a manner complying with U.S. Treasury Regulation Section 1.423-2(e)(2)(ii).

(f) In the case of the 423 Component, Eligible Employees who are citizens or residents of a non-U.S. jurisdiction (without regard to whether they also are citizens or residents of the United States or resident aliens within the meaning of Section 7701(b)(1)(A) of the Code) may be excluded from participation in the Plan or an Offering if the participation of such Eligible Employees is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the

Plan or an Offering to violate Section 423 of the Code (or to the extent such exclusion is permitted under Section 423 of the Code). In the case of the Non-423 Component, Eligible Employees may be excluded from participation in the Plan or an Offering if the Administrator has determined that participation of such Eligible Employees is not advisable or practicable.

(g) A participant in the Plan shall cease to be an Eligible Employee upon termination of employment (as further described in Section 12 below), upon the entity employing such participant during an Offering Period ceasing to be an Affiliate, or upon the participant transferring to an Affiliate that is not a Participating Subsidiary or Participating Affiliate.

## 5. Offerings; Offering Periods; Purchase Periods.

(a) For purposes of this Plan, “**Offering**” means an offer of an option under the Plan that may be exercised on one or more Purchase Dates (as hereinafter defined) during an Offering Period. Unless otherwise specified by the Administrator, each Offering to the Eligible Employees of the Company, a Participating Subsidiary or a Participating Affiliate shall be deemed a separate Offering (the terms of which Offering under the Non-423 Component need not be identical), even if the dates and other terms of the separate Offerings are identical and the provisions of the Plan shall separately apply to each Offering. To the extent permitted by U.S. Treasury Regulation Section 1.423-2(a)(1), the terms of each separate Offering under the 423 Component need not be identical, provided that the terms of the Plan and an Offering together satisfy U.S. Treasury Regulation Section 1.423-2(a)(2) and (a)(3).

(b) Except as otherwise specified by the Administrator prior to the commencement of an Offering Period (as defined below): (i) the offering periods of this Plan (each, an “**Offering Period**”) shall be twenty- four (24) month periods commencing on May 1 and November 1 of each year and ending on April 30 and October 31 of each year, and (ii) each Offering Period shall consist of four (4) six-month purchase periods (each, a “**Purchase Period**”) during which payroll deductions or other contributions of the participants are accumulated under this Plan. The first business day of each Offering Period is referred to as the “Offering Date.” The last business day of each Purchase Period is referred to as the “**Purchase Date.**”

(c) The Administrator shall have the power to change the duration of Offering Periods with respect to Offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected. Notwithstanding the foregoing, in the event of a merger, recapitalization, restructuring or other corporate transaction affecting the Common Stock, the Administrator may, without stockholder approval and in accordance with applicable law, shorten the duration of Offering Periods or establish other Offering Periods in addition to those described above, which shall be subject to any specific terms and conditions that the Administrator approves, including requirements with respect to eligibility, participation, the establishment of Purchase Periods and Purchase Dates and other rights under any such offering. A participant may be enrolled in only one Offering Period at a time.

## 6. Participation in this Plan.

(a) An Eligible Employee may become a participant in the Plan by completing, within five (5) business days prior to the applicable Offering Date (or such other time frame set forth by the Administrator), a subscription agreement (through the Company’s online Plan enrollment process or in paper form if required by the Administrator) and/or any other forms and by following any other procedures for enrollment in the Plan as may be established by the Administrator.

(b) Once an Eligible Employee becomes a participant in the Plan, the Eligible Employee will automatically participate in each succeeding Offering Period unless (i) he or she withdraws or is deemed to withdraw from this Plan or terminates further participation in the Offering Period as set forth in Section 11 below, or (ii) ceases to be an Eligible Employee. Any such participant is not required to complete any additional subscription agreement, form or procedure in order to continue participation in this Plan, unless requested by the Administrator for legal or administrative reasons.

(c) If a participant in the Plan transfers employment between the Company and a Participating Subsidiary or between Participating Subsidiaries, his or her participation in the Plan shall continue unless and until otherwise terminated in accordance with the Plan. Similarly, if a participant in the Plan transfers employment between Participating Affiliates, his or her participation in the Plan shall continue unless and until otherwise terminated in accordance with the Plan. If a participant in the Plan transfers employment (i) from the Company or a Participating Subsidiary to a Participating Affiliate or (ii) from a Participating Affiliate to the Company or a Participating Subsidiary, he or she shall be deemed to withdraw from the Plan as of the transfer date and shall have his or her accumulated payroll deductions refunded to him or her (without interest, subject to Section 9(e) below) as soon as practicable following the transfer. Such former participant shall be entitled to re-enroll in the Plan as of the next Offering Period provided that he or she is an Eligible Employee at that time, completes a subscription agreement and follows the procedures set forth in Section 6(a) above. Notwithstanding the foregoing provisions of this Section 6(c), the Administrator may establish additional and/or different rules to govern transfers of employment among the Company and any Participating Subsidiary or Participating Affiliate, consistent with the applicable requirements of Code Section 423 and the terms of the Plan.

**7. Grant of Option.** On the Offering Date of each Offering Period, and subject in all cases to the provisions of the Plan, each participant in the Plan shall be granted an option to purchase on each Purchase Date during the Offering Period (at the purchase



price described in Section 8 below) up to that number of shares of Common Stock determined by dividing (a) the amount accumulated in such participant's payroll deduction or other contribution account during such Purchase Period by (b) the lesser of (i) eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Offering Date (but in no event less than the par value of a share of Common Stock), or (ii) eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Purchase Date (but in no event less than the par value of a share of Common Stock), provided, however, that the number of shares of Common Stock subject to any option granted pursuant to this Plan shall not exceed the lesser of (x) the maximum number of shares which may be purchased pursuant to Section 10(a) with respect to the applicable Purchase Date, or (y) the maximum number of shares set by the Administrator pursuant to Section 10(b) below with respect to the applicable Purchase Date. The Fair Market Value of a share of Common Stock shall be determined as provided in Section 8 below.

**8. Purchase Price.** The purchase price at which each share of Common Stock will be sold in any Offering Period shall be eighty-five percent (85%) of the lesser of:

- (a) The Fair Market Value on the Offering Date; or
- (b) The Fair Market Value on the Purchase Date.

For purposes of this Plan, the term "**Fair Market Value**" means, as of any date, the value of a share of Common Stock determined as follows:

- (i) if such Common Stock is then quoted on The NASDAQ Stock Market, its closing price on The NASDAQ Stock Market on the date of determination as reported in The Wall Street Journal;
- (ii) if such Common Stock is publicly traded and is then listed on another national securities exchange, its closing price on the date of determination on the principal national securities exchange on which Common Stock is listed or admitted to trading as reported in The Wall Street Journal;
- (iii) if such Common Stock is publicly traded but is not quoted on The NASDAQ Stock Market nor listed or admitted to trading on another national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in The Wall Street Journal; or
- (iv) if none of the foregoing is applicable, by the Administrator in good faith.

## **9. Payment of Purchase Price; Changes in Payroll Deductions; Issuance of Shares.**

(a) The purchase price of the shares of Common Stock shall be paid for by means of payroll deductions taken from the participant's Compensation (as hereinafter defined) during each Purchase Period. Except as set forth in this Section 9, the amount of payroll deductions to be taken from a participant's Compensation shall be determined by the Eligible Employee at the time of completing the subscription agreement and enrolling in the Plan as described in Section 6(a) above.

Notwithstanding the foregoing or any provisions to the contrary in the Plan, the Administrator may allow participants to make other contributions under the Plan via cash, check or other means instead of payroll deductions if payroll deductions are not permitted under applicable local law and, for any Offering under the 423 Component, the Administrator determines that such other contributions are permissible under Section 423 of the Code.

The payroll deductions or other contributions are made as a percentage of the participant's Compensation in one percent (1%) increments and shall not be less than two percent (2%), nor greater than ten percent (10%) or such lower limit set by the Administrator. The Administrator shall determine whether the amount to be contributed is to be designated as a specific dollar amount, or as a percentage of the eligible Compensation being paid on such payday, or as either, and may also establish a minimum percentage or amount for such contributions.

Payroll deductions shall commence on the first payday of the Offering Period and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in this Plan. Other contributions shall be made at the time and in the manner prescribed by the Administrator for the option and/or Offering under which other contributions are permitted pursuant to foregoing provisions of this section.

(b) For purposes of this Plan, "**Compensation**" means the following forms of cash remuneration earned or payable to a participant by the Company, a Participating Subsidiary or a Participating Affiliate during the applicable Offering Period: base wages; salary; overtime (including pay in lieu of meal time); performance or merit bonuses; commissions; shift differentials; language differentials; payments for paid time off and holidays; sabbatical pay; payments in lieu of notice; travel pay; retroactive pay; on-call/standby pay; hazard pay; bereavement pay; jury/witness duty pay; pay during a period of suspension; military leave pay; compensation deferred pursuant to Section 401(k) or Section 125 of the Code; distributions under any nonqualified deferred compensation plan; retention bonuses; or any other compensation or remuneration approved as "compensation" by the Administrator in accordance with Section 423 of the Code.

For purposes of this Plan, "Compensation" shall not include forms of compensation or remuneration that are not included or covered by the first sentence in this Section 9(b), including the following: moving allowances; automobile allowances; gross-up payments; compensation deferred under any nonqualified deferred compensation plan; payments pursuant to a severance plan, agreement or arrangement; payments during a garden leave or other notice period preceding termination of employment; equalization payments; termination pay (including the payout of accrued vacation time in connection with any such termination); relocation allowances; expense reimbursements; meal allowances; commuting allowances; geographical hardship pay; any payments (such as guaranteed bonuses in certain foreign jurisdictions) with respect to which salary reductions are not permitted by the laws of the applicable jurisdiction); sign-on bonuses; nonqualified executive compensation; any amounts directly or indirectly paid pursuant to this Plan or any other stock-based plan, including without limitation any stock option, stock purchase, restricted stock, restricted stock unit, deferred stock unit, or similar plan, of the Company or any Affiliate, or cash paid in lieu of any such awards.

The Administrator, in its sole discretion, may, on a uniform and nondiscriminatory basis for each Offering, establish a different definition of Compensation for a subsequent Offering. Further, the Administrator shall have discretion to determine the application of this definition to participants on payrolls outside the United States.

(c) A participant may increase or decrease the rate of payroll deductions or other contributions during an Offering Period by completing a new authorization for payroll deductions or other contributions (through the Company's online Plan process or in paper form if required by the Administrator) and/or any other forms and by following any other procedures as may be established by the Administrator, in which case the new rate shall become effective as soon as administratively practicable after the participant elects such change and shall continue for the remainder of the Offering Period unless changed as described below. Such change in the rate of payroll deductions or other contributions may be made at any time during an Offering Period, but not more than one (1) change may be made effective during any Purchase Period.

A participant may increase or decrease the rate of payroll deductions or contributions for any subsequent Offering Period by completing a new authorization for payroll deductions or other contributions (through the Company's online Plan process or in paper form if required by the Administrator) and/or any other forms and by following any other procedures as may be established by the Administrator, not later than fifteen (15) business days before the beginning of such Offering Period or within such other time frame set forth by the Administrator.

(d) A participant may reduce his or her payroll deductions or contributions percentage to zero during an Offering Period by submitting to the Company a request for cessation of payroll deductions or other contributions (through the Company's online Plan process or in paper form if required by the Administrator) and/or any other forms and by following any other procedures as may be established by the Administrator. Such reduction shall be effective as soon as administratively practicable after the Participant elects such reduction and no further payroll deductions or contributions will be made for the duration of the Offering Period. Payroll deductions or contributions credited to the participant's account prior to the effective date of the request shall be used to purchase shares of Common Stock in accordance with Section 9(f) below. A participant may not resume making payroll deductions or other contributions during the Offering Period in which he or she reduced his or her payroll deductions or other contributions to zero. For avoidance of doubt, if a participant reduces his or her payroll deductions or contributions percentage to zero during an Offering Period and does not increase such rate of payroll deductions or contributions above zero prior to the commencement of the next subsequent purchase period (if any) within such Offering Period, or if there is no such subsequent purchase period, prior to the commencement of the next subsequent Offering Period, such action will be treated as the participant's withdrawal from the Plan in accordance with Section 11(a), unless participant is on a bona fide leave of absence pursuant to Section 4(c) above. The Administrator has the authority to change the foregoing rules set forth in this Section 9(d) regarding participation in the Plan.

(e) A participant's payroll deductions or other contributions shall be credited to an account maintained on such participant's behalf under this Plan. All payroll deductions or other contributions shall be deposited with the general funds of the Company and may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions or other contributions, unless otherwise required by the laws of the jurisdiction where the payroll deductions are taken or other contributions are made, as determined by the Administrator. No interest shall accrue on the payroll deductions or other contributions, unless otherwise required by the laws of the jurisdiction where the payroll deductions are taken or other contributions are made, as determined by the Administrator.

(f) On each Purchase Date, so long as this Plan remains in effect and provided that the participant has not withdrawn from the Offering Period in accordance with the requirements of Section 11(a), the Company shall apply the funds then in the participant's account to the purchase of whole shares of Common Stock reserved under the option granted to such participant with respect to the Offering Period to the extent that such option is exercisable on the Purchase Date. The purchase price per share shall be as specified in Section 8 of this Plan. Any cash remaining in a participant's account after such purchase of shares shall be refunded to such participant in cash, without interest (subject to Section 9(e) above); provided, however, that any amount remaining in such participant's account on a Purchase Date which is less than the amount necessary to purchase a full share of Common Stock shall



be carried forward, without interest (subject to Section 9(e) above), into the next Purchase Period or Offering Period and in the locations where the Administrator has determined that such rollover is available under the Plan, as the case may be. In the event that this Plan has been oversubscribed, all funds not used to purchase shares on the Purchase Date shall be returned to the participant, without interest (subject to Section 9(e) above). No Common Stock shall be purchased on a Purchase Date on behalf of any employee whose participation in this Plan has terminated prior to such Purchase Date.

(g) Subject to Section 9(h) below, as promptly as practicable after the Purchase Date, the Company shall issue shares for the participant's benefit representing the shares purchased upon exercise of his or her option.

(h) At the time the option is exercised or at the time some or all of the shares of Common Stock issued under the Plan are disposed of (or at any other time that a taxable event related to the Plan occurs), the Plan participant must make adequate provision for any withholding obligation of the Company or a Participating Subsidiary or a Participating Affiliate with respect to federal, state, local and foreign income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to participation in the Plan and legally applicable to participant (including any amount deemed by the Company, in its sole discretion, to be an appropriate charge to Participant even if legally applicable to the Company or the participant's employer). At any time, the Company or the participant's employer may, but shall not be obligated to, withhold from the participant's wages or other cash compensation the amount necessary for the Company or the participant's employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the participant's employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the participant. In addition, the Company or the participant's employer may, but shall not be obligated to, withhold from the proceeds of the sale of Common Stock or by any other method of withholding the Company or the participant's employer deems appropriate.

(i) During a participant's lifetime, his or her option to purchase shares hereunder is exercisable only by him or her. The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised and the purchased shares are issued or transferred to the participant.

#### 10. Limitations on Shares to be Purchased.

(a) No participant shall be entitled to purchase Common Stock under this Plan at a rate which, when aggregated with his or her rights to purchase stock under all other employee stock purchase plans of the Company or any Subsidiary exceeds \$25,000 in Fair Market Value, determined as of the Offering Date (or such other limit as may be imposed by the Code) for each calendar year in which any option granted to the participant is outstanding at any time. The Company shall automatically suspend the payroll deductions or other contributions of any participant as necessary to enforce such limit provided that when the Company automatically resumes making such payroll deductions or accepting contributions, the Company shall apply the rate in effect immediately prior to such suspension.

(b) No participant shall be entitled to purchase more than the Maximum Share Amount (as defined below) on any single Purchase Date. Not less than thirty (30) days prior to the commencement of any Offering Period, the Administrator may, in its sole discretion, set a maximum number of shares which may be purchased by any employee at any single Purchase Date (hereinafter the "**Maximum Share Amount**"). Until otherwise determined by the Administrator, the Maximum Share Amount shall be 5,000 shares (subject to any adjustment pursuant to Section 14). If a new Maximum Share Amount is set, then all participants shall be notified of such Maximum Share Amount prior to the commencement of the next Offering Period. The Maximum Share Amount shall continue to apply with respect to all succeeding Purchase Dates and Offering Periods unless revised by the Administrator as set forth above.

(c) If the number of shares to be purchased on a Purchase Date by all employees participating in this Plan exceeds the number of shares then available for issuance under this Plan, then the Company will make a pro rata allocation of the remaining shares in as uniform a manner as shall be reasonably practicable and as the Administrator shall determine to be equitable. In such event, the Company shall provide notice of such reduction of the number of shares to be purchased under a participant's option to each participant affected.

(d) Any funds accumulated in a participant's account which are not used to purchase Common Stock due to the limitations in this Section 10 shall be returned to the participant as soon as practicable after the end of the applicable Purchase Period, without interest (subject to Section 9(e) above).

#### 11. Withdrawal.

(a) Each participant may withdraw from a Purchase Period under this Plan by completing a notice of withdrawal (through the Company's online Plan process or in paper form if required by the Administrator) and/or any other forms and by following any other procedures for withdrawal from the Plan as may be established by the Administrator, at least fifteen (15) business days prior to the end of a Purchase Period or within such other time frame set forth by the Administrator.

(b) Upon withdrawal from this Plan, the accumulated payroll deductions shall be returned to the withdrawn participant, without interest (subject to Section 9(e) above), and his or her interest in this Plan shall terminate. In the event a participant voluntarily elects to withdraw from this Plan, he or she may not resume his or her participation in this Plan during the same Offering Period, but he or she may participate in any Offering Period under this Plan which commences on a date subsequent to such withdrawal by completing a subscription agreement in the same manner as set forth in Section 6 above for initial participation in this Plan.

(c) If the Fair Market Value of a share of Common Stock on the first day of the current Offering Period in which a participant is enrolled is higher than the Fair Market Value of a share of Common Stock on the first day of any subsequent Offering Period, the Company will automatically enroll such participant in the subsequent Offering Period. Any funds accumulated in a participant's account prior to the first day of such subsequent Offering Period will be applied to the purchase of shares on the Purchase Date immediately prior to the first day of such subsequent Offering Period. A participant does not need to file any forms with the Company to be automatically enrolled in the subsequent Offering Period.

**12. Termination of Employment.** Termination of a participant's employment for any reason, including retirement, death or the failure of a participant to remain an Eligible Employee immediately terminates his or her participation in this Plan. For purposes of this Plan, a participant's employment will be considered terminated as of the date that participant is no longer actively providing services as an employee and will not be extended by any notice period (i.e., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where participant is employed or the terms of participant's employment agreement, if any, but is not actively providing services); the Administrator shall have the exclusive discretion to determine when the participant is no longer actively providing services for purposes of participation in the Plan. In such event, the funds credited to the participant's account will be returned to him or her or, in the case of his or her death, to his or her legal representative, without interest (subject to Section 9(e) above).

**13. Return of Payroll Deductions and Other Contributions.** In the event a participant's interest in this Plan is terminated by withdrawal, termination of employment or otherwise, or in the event this Plan is terminated pursuant to Section 25, the Company shall deliver to the participant all payroll deductions or other contributions credited to such participant's account, without interest (subject to Section 9(e) above).

#### 14. Capital Changes.

(a) In the event that any dividend or other distribution, reorganization, merger, consolidation, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting Common Stock (other than an Equity Restructuring, as defined in Section 14(c) below) occurs such that an adjustment is determined by the Administrator (in its sole discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Administrator shall, in such manner as it may deem equitable, adjust the number and class of Common Stock or type of securities which have been authorized for issuance under this Plan but have not yet been placed under option (collectively, the "**Reserves**"), the Maximum Share Amount, the number and class of Common Stock or type of securities covered by each outstanding option, and the purchase price per share of Common Stock covered by each option which has not yet been exercised.

(b) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Section 14(a), the number and type of securities subject to each outstanding option and the price per share thereof, if applicable, will be equitably adjusted by the Administrator. The adjustments provided under this Section 14(b) shall be nondiscretionary and shall be final and binding on the affected participants and the Company.

(c) "**Equity Restructuring**" means a non-reciprocal transaction (i.e., a transaction in which the Company does not receive consideration or other resources in respect of the transaction approximately equal to and in exchange for the consideration or resources the Company is relinquishing in such transaction) between the Company and its stockholders, such as a stock split, spin-off, rights offering, nonrecurring stock dividend or recapitalization through a large, nonrecurring cash dividend, that affects the shares of Common Stock (or other securities of the Company) or the share price of Common Stock (or other securities) and causes a change in the per share value of Common Stock underlying outstanding options.

(d) In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Administrator. The Administrator may, in the exercise of its sole discretion in such instances, declare that this Plan shall terminate as of a date fixed by the Administrator and give each participant the right to purchase shares under this Plan prior to such termination.

(e) In the event of (i) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the options under this Plan are assumed, converted or replaced by the successor corporation, which assumption will be binding on all participants), (ii) a merger in which the Company is the surviving corporation but after which the stockholders of the Company immediately

prior to such merger (other than any stockholder that merges, or which owns or controls another corporation that merges, with the Company in such merger) cease to own their shares or other equity interest in the Company, (iii) the sale of all or substantially all of the assets of the Company or (iv) the acquisition, sale, or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction, unless otherwise provided by the Administrator in its sole discretion, the Plan will continue with regard to Offering Periods that commenced prior to the closing of the proposed transaction and shares will be purchased based on the Fair Market Value of the surviving corporation's stock on each Purchase Date. The Administrator may, in the exercise of its sole discretion in such instances, declare that this Plan shall terminate as of a date fixed by the Administrator and give each participant the right to purchase shares under this Plan prior to such termination.

**15. Nonassignability.** Neither payroll deductions or other contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under this Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 19 below) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be void and without effect.

**16. Notice of Disposition; Holding of Shares.** If the shares purchased in any Offering Period under the 423 Component are not in the participant's Company stock plan account, each participant shall notify the Company in writing if the participant disposes of any of the shares purchased in any such Offering Period under the 423 Component if such disposition occurs within two (2) years from the Offering Date or within one (1) year from the Purchase Date on which such shares were purchased (the "Notice Period"). The Company may, at any time during the Notice Period, place a legend or legends on any certificate representing shares acquired pursuant to this Plan requesting the Company's transfer agent to notify the Company of any transfer of the shares. The obligation of the participant to provide such notice shall continue notwithstanding the placement of any such legend on the certificates. Further, the Company may require that shares purchased in any Offering Period, whether under the 423 Component or the Non-423 Component, be retained in the participant's Company stock plan account or such other account for a designated period of time, and/or may establish other procedures to permit tracking of dispositions of shares.

**17. No Rights to Continued Employment.** Neither this Plan nor the grant of any option hereunder shall confer any right on any employee to remain in the employ of the Company or any Participating Subsidiary or Participating Affiliate, or restrict the right of the Company or any Participating Subsidiary or Participating Affiliate to terminate such employee's employment.

**18. Notices.** All notices or other communications by a participant to the Company under or in connection with this Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

**19. Death of Participant.** In the event of the death of a participant, the Company shall deliver the shares or cash, if any, credited to the participant's account to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), to such other individual as may be prescribed by applicable law.

**20. Conditions Upon Issuance of Shares; Limitation on Sale of Shares.** Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the U.S. Securities Act of 1933, as amended, the U.S. Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or automated quotation system upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

**21. Section 409A.** The 423 Component is exempt from the application of Section 409A of the Code ("Section 409A") and any ambiguities herein shall be interpreted to so be exempt from Section 409A. The Non-423 Component is intended to be exempt from the application of Section 409A under the short-term deferral exception and any ambiguities shall be construed and interpreted in accordance with such intent. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that an option granted under the Plan may be subject to Section 409A or that any provision in the Plan would cause an option under the Plan to be subject to Section 409A, the Administrator may amend the terms of the Plan and/or of an outstanding option granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the participant's consent, to exempt any outstanding option or future option that may be granted under the Plan from or to allow any such options to comply with Section 409A, but only to the extent any such amendments or action by the Administrator would not violate Section 409A. Notwithstanding the foregoing, the Company shall have no liability to a participant or any other party if the option under the Plan that is intended to be exempt from or compliant with Section 409A is not so exempt or compliant or for any action taken by the Administrator with respect thereto.

**22. Tax Qualification.** Although the Company may endeavor to (a) qualify an option for favorable tax treatment under the laws of the United States or jurisdictions outside of the United States or (b) avoid adverse tax treatment (e.g., under Section 409A), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable or avoid unfavorable tax treatment, notwithstanding anything to the contrary in this Plan, including Section 21. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on participants under the Plan.

**23. Stockholder Approval.** After this Plan is adopted by the Board, this Plan will become effective on the Amendment Effective Date. This Plan shall be subject to approval by the stockholders of the Company, in a manner permitted by applicable corporate law, within twelve (12) months before or after the date this Plan is adopted by the Board. No purchase of shares pursuant to this Plan shall occur prior to such stockholder approval. This Plan shall continue until the earlier to occur of (a) termination of this Plan by the Board (which termination may be effected by the Board at any time) or (b) issuance of all of the shares of Common Stock reserved for issuance under this Plan.

**24. Governing Law.** The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of Delaware.

**25. Amendment or Termination of this Plan.** The Administrator may at any time amend or terminate the Plan, except that any such termination cannot affect options previously granted under this Plan, nor may any amendment make any change in an option previously granted which would adversely affect the right of any participant, nor may any amendment be made without approval of the stockholders of the Company obtained in accordance with Section 23 above within twelve (12) months of the adoption of such amendment (or earlier if required by Section 23 above) if such amendment would:

- (a) increase the number of shares that may be issued under this Plan; or
- (b) change the designation of the corporations whose employees (or class of employees) are eligible for participation in this Plan.

For the avoidance of doubt, the authority to take action under this Section 25 may not be delegated to an officer or other employee. Notwithstanding the foregoing, the Administrator may make such amendments to the Plan as the Administrator determines to be advisable, if the continuation of the Plan or any Offering Period would result in financial accounting treatment for the Plan that is different from the financial accounting treatment in effect on the date this Plan is adopted by the Board.

**26. Severability.** If any provision of the Plan is or becomes or is deemed to be invalid, illegal, or unenforceable for any reason in any jurisdiction or as to any participant, such invalidity, illegality or unenforceability will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as to such jurisdiction or participant as if the invalid, illegal or unenforceable provision had not been included.

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017.

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 001-36859

**PayPal Holdings, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
2211 North First Street  
San Jose, California  
(Address of Principal Executive Offices)

47-2989869  
(I.R.S. Employer  
Identification No.)

95131  
(Zip Code)

(408) 967-1000

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 ☒

As of June 30, 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$64.5 billion based on the closing sale price as reported on the NASDAQ Global Select Market.

As of February 2, 2018, there were 1,200,160,405 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2018 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2017.

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## Presentation of Information

On July 17, 2015, PayPal Holdings, Inc. ("PayPal Holdings") became an independent publicly traded company through the pro rata distribution by eBay (defined below) of 100% of the outstanding common stock of PayPal Holdings to eBay's stockholders (which we refer to as the "separation" or the "distribution"). For additional information, see "Business—Separation from eBay Inc." To accomplish this separation, in January 2015, eBay incorporated PayPal Holdings, Inc., which ultimately became the parent of PayPal, Inc. and holds directly or indirectly all of the assets and liabilities associated with PayPal, Inc. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company" or "PayPal" refer to PayPal Holdings, Inc. and its consolidated subsidiaries or, in the case of information as of dates or for periods prior to our separation from eBay, the consolidated entities of the payments business of eBay, including PayPal, Inc. and certain other assets and liabilities that were historically held at the eBay corporate level, but were specifically identifiable and attributable to the payments business, and references to our "Payments Platform" mean our combined payment solution capabilities, including our PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products.

References in this Annual Report on Form 10-K to "eBay" refer to eBay Inc., a Delaware corporation, and its consolidated subsidiaries, which prior to the separation and distribution, but not after such date, included the business and operations of PayPal.

## Trademarks, Trade Names and Service Marks

PayPal owns or has rights to use the trademarks, service marks and trade names that it uses in conjunction with the operation of its business. Some of the more important trademarks that PayPal owns or has rights to use that appear in this Annual Report on Form 10-K include: PayPal®, PayPal Credit®, Braintree, Venmo, and Xoom, which may be registered or trademarked in the United States and other jurisdictions. PayPal's rights to some of these trademarks may be limited to select markets. Each trademark, trade name or service mark of any other company appearing in this Annual Report on Form 10-K is, to PayPal's knowledge, owned by such other company.

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# PART I

## Forward-looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan” and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in “Item 1A. Risk Factors” of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission (“SEC”). We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should read the information in this report in conjunction with the audited consolidated financial statements and the related notes that appear elsewhere in this report.

## ITEM 1. Business

### OVERVIEW

PayPal Holdings, Inc. was incorporated in Delaware in January 2015 and is a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide. Our vision is to democratize financial services, as we believe that managing and moving money is a right for all people, not just the affluent. Our goal is to increase our relevance for consumers and merchants to manage and move their money anywhere in the world, anytime, on any platform and using any device. Our combined payment solutions, including our PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products, compose our proprietary Payments Platform.

We operate a two-sided proprietary global technology platform that links our customers, which consist of both merchants and consumers, around the globe to facilitate the processing of payment transactions, allowing us to connect millions of merchants and consumers worldwide. We offer our customers the flexibility to use their account to both purchase and receive payment for goods and services, as well as to transfer and withdraw funds. We enable consumers to more safely exchange funds with merchants using a variety of funding sources, which may include a bank account, a PayPal account balance, a PayPal Credit account, a credit or debit card or other stored value products such as coupons and gift cards. Our PayPal, Venmo and Xoom products also make it safer and simpler for friends and family to transfer funds to each other. We offer merchants an end-to-end payments solution that provides authorization and settlement capabilities, as well as instant access to funds. We help merchants connect with their customers and manage risk. We enable consumers to engage in cross-border shopping and merchants to extend their global reach while reducing the complexity and friction involved in enabling overseas and cross-border trade.

We generate revenues by charging fees for providing transaction processing and other payment-related services based primarily on the volume of activity processed through our Payments Platform. We generally do not charge consumers to fund or draw from their accounts; however, we generate revenue from consumers on fees charged for foreign currency exchange. We also earn revenue by providing value added services to consumers and merchants, such as our PayPal Credit and gateway services. Our gateway services, which include our Payflow Gateway services and Braintree Gateway services, provide the technology that links a merchant’s website to its processing network and merchant account and enable merchants to accept payments online with credit or debit cards.

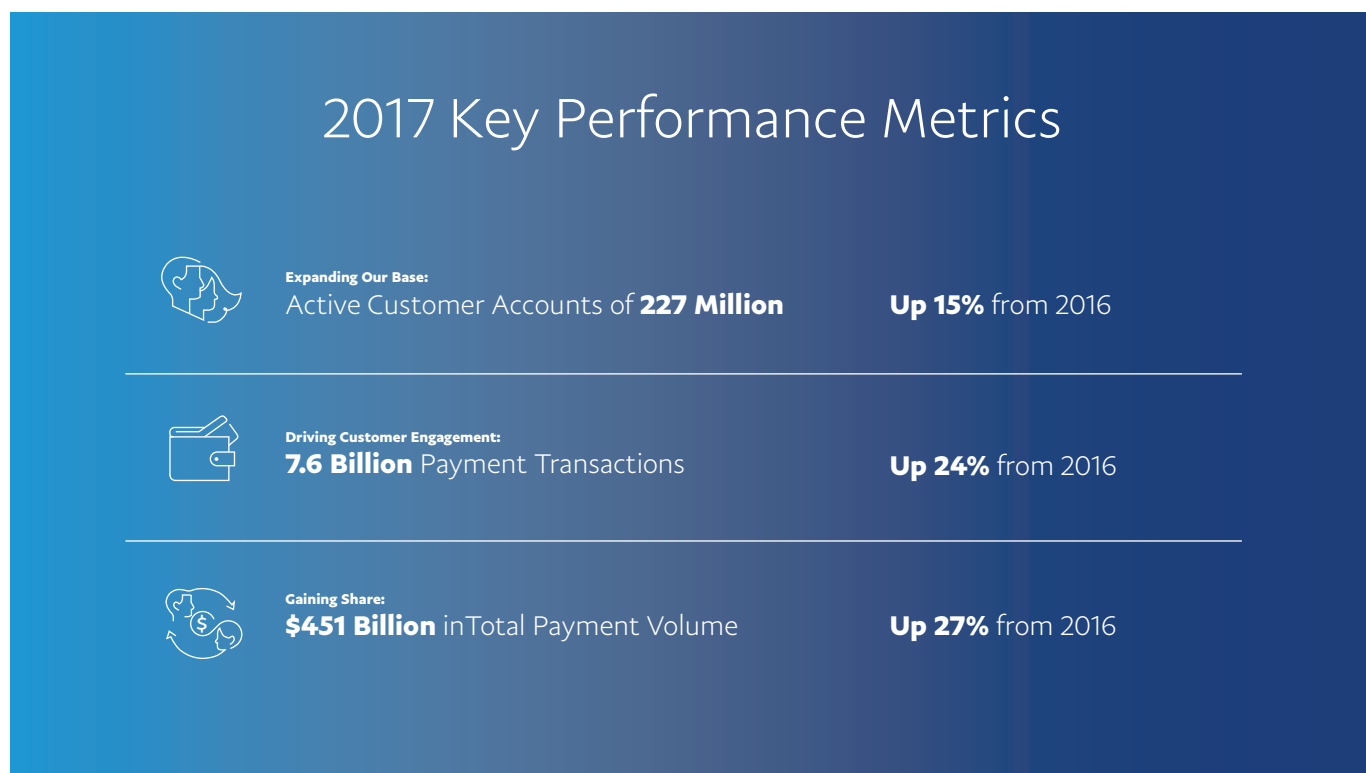
### STRATEGY

Our ability to grow revenue is affected by, among other things, consumer spending patterns, merchant and consumer adoption of digital payment methods, the expansion of multiple commerce channels, the growth of mobile devices and merchant and consumer applications on those devices, the growth of consumers globally with Internet and mobile access, the pace of transition from cash and checks to digital forms of payment, our share of the digital payments market, and our ability to innovate new methods of payment that merchants and consumers value. Our strategy to drive growth in our business includes the following:

- **Growing our core:** through expanding our global capabilities, customer base and scale, increasing our customers’ use of our products and services by better addressing their everyday needs related to accessing, managing and moving money and expanding the adoption of our solutions by new merchants and consumers;
- **Expanding our value proposition for customers:** by focusing on trust and simplicity, providing risk management and insights from our two-sided Payments Platform and being technology and platform agnostic;
- **Extending through strategic partnerships:** by building new strategic partnerships to provide better experiences for our customers, offering greater choice and flexibility, acquiring new customers and reinforcing our role in the ecosystem; and

- **Seeking new areas of growth:** through new international markets around the world and focusing on innovation both in the digital and the physical world.

## KEY PERFORMANCE METRICS



We measure the relevance of our products to our customers, and therefore the success of our business, through active customer accounts, payment volume and payment transactions:

**Active Customer Accounts:** An active customer account is a registered account that successfully sent or received at least one payment or payment reversal through our Payments Platform, excluding transactions processed through our gateway and Paydiant products, in the past 12 months. As of December 31, 2017, we had approximately 227 million active customer accounts across more than 200 markets. A market is a geographic area or political jurisdiction, such as a country, territory, or protectorate, in which we offer our services. A country, territory or protectorate is identified by a distinct set of laws and regulations.

**Number of Payment Transactions:** Number of payment transactions is defined as the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products.

**Total Payment Volume ("TPV"):** TPV is the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products.

## OUR STRENGTHS

Our business is built on a strong foundation designed to drive growth and differentiate us from our competitors. We believe that our competitive strengths include the following:

- **Two-sided Platform**—our platform connecting merchants and consumers enables PayPal to offer unique end-to-end product experiences while gaining valuable insights into customer behavior through our data. Our platform provides for simple digital and mobile transactions while being both brand and technology agnostic.
- **Scale**—our global scale allows us to drive organic growth. As of December 31, 2017, we had 227 million active customer accounts, which included 18 million active merchant accounts. In 2017, we processed \$451 billion of TPV in more than 200 markets around the world.
- **Brand**—we have built a well-recognized and trusted brand. Our marketing efforts play an important role in building brand visibility, usage and overall preference among customers.

- **Risk Management**—our risk management system and tokenization usage are designed to keep our customers safe and to ensure we process legitimate transactions around the world, while reducing illegal, high-risk, or fraudulent transactions.
- **Regulatory**—we believe that our regulatory licenses, which enable us to operate in markets around the world, are a distinct advantage and support business growth.

## TECHNOLOGY

Our Payments Platform utilizes a combination of proprietary technologies and services as well as technologies and services provided by third parties to efficiently and securely facilitate transactions between millions of merchants and consumers worldwide across different channels, markets and networks. Our Payments Platform connects with financial institutions around the world and allows consumers to make purchases using a wide range of payment methods, regardless of where a merchant is located. Consumers who use our Payments Platform can send payments in more than 200 markets across the globe and in more than 100 currencies, withdraw funds to their bank accounts in 56 currencies and hold balances in their PayPal accounts in 25 currencies.

A transaction on our Payments Platform can involve multiple participants in addition to us including a merchant, a consumer and the consumer's funding source provider. We have developed intuitive user interfaces, customer tools on our Payments Platform, transaction processing, and database and network applications that help our customers utilize our suite of products and services. Our Payments Platform, open application programming interfaces, and developer tools are designed to enable developers to innovate with ease and offer robust applications to our global ecosystem of merchants and consumers, while at the same time maintaining the security of our customers' financial information.

The technology infrastructure supporting our Payments Platform simplifies the storage and processing of large amounts of data, and facilitates the deployment and operation of large-scale global products and services and automates much of the administration of large-scale clusters of computers. Our technology infrastructure has been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences. Our Payments Platform incorporates multiple layers of protection, both for continuity and system redundancy purposes and to help address cybersecurity challenges. We engage in multiple efforts to protect our technology infrastructure and Payments Platform against these challenges, including regularly testing our systems to address potential vulnerabilities. We strive to continually improve our technology infrastructure and Payments Platform to enhance the customer experience and to increase efficiency, scalability and security.

## MERCHANT AND CONSUMER PAYMENT SOLUTIONS

Our combined payment solution capabilities offer our merchants and consumers a broad range of products and services, enabling our merchants to safely and simply receive payments from their customers while allowing our consumers to make seamless transactions across different markets and networks.

We partner with our merchants to help grow and expand their businesses by improving sales conversion, providing global reach, offering alternative payment methods, reducing losses through proprietary protection programs and leveraging data analytics. Merchants can onboard quickly with PayPal and are not required to invest in new or specialized hardware. For our standard service, we do not charge merchants setup or recurring fees. We offer access to credit products for certain small and medium-sized merchants through PayPal Working Capital and, with the recent acquisition of Swift Financial Corporation ("Swift"), other business loan products. Our PayPal Working Capital product allows businesses to borrow a certain percentage of their annual payment volume processed by PayPal for a fee. Our Swift business loan products provide businesses with access to short-term business financing based on an evaluation of both the applying business as well as the business owner. We believe that our business financing offerings allow us to deepen our engagement with our small and medium-sized business merchants by providing them with access to capital to grow their business that they may not otherwise be able to effectively or efficiently access from traditional banks or other lending providers. Our recent acquisition of Swift also enables us to enhance our underwriting capabilities and strengthen our business financing offerings, helping us to deepen relationships with our existing merchants and expand services to new merchants.

PayPal is a popular form of payment for mobile commerce, and our business has grown with the increased adoption of mobile devices. We believe our Braintree products strengthen our position in mobile payments and extend our coverage to a new class of retailers and service providers that offer their services primarily through mobile applications. Through a single Braintree integration, a merchant can begin accepting payments with credit or debit cards, PayPal, Android Pay, Apple Pay, Samsung Pay and other payment solutions. We also offer gateway services, including our Payflow Gateway services and Braintree Gateway services, that enable merchants to accept payments online with credit or debit cards. Our gateway services provide the payment gateway technology that links a merchant's website to its processing network and enable merchants to accept payments online with credit and debit cards.

We focus on providing affordable consumer products intended to democratize the management and movement of money. We offer our customers the flexibility to use their account to both purchase and receive payment for goods and services, as well as transfer and withdraw funds. We enable consumers to more safely exchange funds with merchants using a variety of financial

resources, which may include a bank account, a PayPal account balance, a PayPal Credit account, a credit or debit card or other stored value products such as coupons and gift cards. We generally do not charge consumers to fund or draw from their accounts. We generate revenue from consumers on fees charged for foreign currency exchange and on interest and fees from our PayPal Credit product. We offer our PayPal Credit product to consumers as a potential funding source at checkout. Once a consumer is approved for credit, PayPal Credit is made available as a funding source in their account. We believe that our consumer credit products allow us to increase engagement with both consumers and merchants on our two-sided network as well as differentiate ourselves from rival payment processors by helping merchants drive incremental sales through products like PayPal Credit. We are responsible for all servicing functions related to all of our credit products. In the U.S., credit originated through our PayPal Credit, PayPal Working Capital and Swift business loan products is currently extended through third-party financial institutions, from whom we purchase the related receivables. For our consumer and merchant credit products outside the U.S., we extend credit through certain international PayPal subsidiaries.

During the fourth quarter of 2017, we expanded our strategic consumer credit relationship with Synchrony Financial (“Synchrony”) and agreed to sell our U.S. consumer credit receivables portfolio to Synchrony Bank. Following the closing of this transaction, which is expected to occur in the third quarter of 2018, Synchrony Bank will become the exclusive issuer of the PayPal Credit online consumer financing program in the U.S. and we will no longer hold any participation interest in the receivables generated through the program (other than charged off receivables).

We offer consumers person-to-person (“P2P”) payment solutions through our PayPal, Venmo and Xoom products. PayPal continues to drive the majority of our total P2P volumes, enabling both domestic and international P2P transfers across our Payments Platform. Our Venmo app in the U.S. is a leading mobile application used to move money between friends and family. Xoom is an international money transfer service that enables our customers to send money to, pay bills for and send prepaid mobile phone reloads for family and friends around the world in a secure, fast and cost-effective way, using their mobile device or personal computers. P2P is a significant customer acquisition channel with network effects that helps us to establish relationships with potential PayPal users by allowing them to join our Payments Platform at the time of making or receiving P2P payments, which drives organic growth.

## PROTECTING MERCHANTS AND CONSUMERS

Protecting merchants and consumers on our Payments Platform from financial and data loss is imperative to successfully competing in the payments industry and sustainably growing our business. Fraudulent activities, such as account takeover, identity theft and counterparty malicious activities, represent a significant and growing risk to merchants and consumers, as well as their payment partners. We provide merchants and consumers with protection programs on most purchase transactions completed through our Payments Platform, except for transactions using our gateway and Paydiant products. We believe that these programs, which protect both merchants and consumers from financial and data loss due primarily to fraud and counterparty non-performance, are generally much broader than similar protections provided by other participants in the payments industry. Many payment providers do not offer merchant protection in general, and those that do generally do not provide protection for online or card not present transactions. As a result, merchants may incur losses for chargebacks and other claims on certain transactions when using other payments providers that they would not incur if they used our payments services. We also provide consumer protection against losses on qualifying purchases and accept claims for 180 days post transaction in the markets that we serve. We believe that this protection is generally consistent with, or better than, that offered by other payments providers. We believe that as a result of these programs, consumers can be confident that they will only be required to pay if they receive the product in the condition as described, and merchants can be confident that they will receive payment for the product that they are delivering to the customer.

Our ability to protect both consumers and merchants is based largely on our proprietary end-to-end payments platform and our ability to leverage the data we collect on both sides of the transactions on our two-sided network (i.e., from buyers and sellers, and from senders and receivers of payments). We believe mobile devices will continue to play a significant and increasing role in commerce, including by creating the opportunities to make our ecosystem safer. For example, PayPal is able to use location data from mobile devices and growing protection for the mobile operating environment to reduce risk to merchants and consumers. Our ongoing investment in systems and processes, designed to enhance the safety and security of our products, reflects our goal of having PayPal recognized as one of the world’s most trusted payments brands.

## COMPETITION

The global payments industry is highly competitive. We compete against a wide range of businesses, including banks, credit card providers, technology and ecommerce companies and traditional retailers, many of which are larger than we are, have a dominant and secure position, or offer other products and services to consumers and merchants which we do not offer. We compete against all forms of payments, including credit and debit cards; automated clearing house and bank transfers; other online payment services; mobile payments; and offline payment methods, including cash and check.

We compete primarily on the basis of the following:

- ability to attract, retain and engage both merchants and consumers with our two-sided platform;
- ability to show merchants that they may achieve incremental sales by offering our end-to-end services;

- consumer confidence in safety and security of transactions on our Payments Platform, including the ability for consumers to use our products and services without sharing their financial information with the merchant or the party they are paying;
- simplicity of our fee structure;
- ability to develop products and services across multiple commerce channels, including mobile payments, credit products and payments at the retail point of sale;
- trust in our dispute resolution and buyer and seller protection programs;
- customer service;
- brand recognition and preference;
- website, mobile platform and application onboarding, ease-of-use, speed, availability, and dependability;
- the technology and payment agnostic nature of our Payments Platform;
- system reliability and data security;
- ease and quality of integration into third-party mobile applications and operating systems; and
- quality of developer tools such as our application programming interfaces and software development kits.

In addition to the discussion in this section, see “Item 1A. Risk Factors” under the caption “Substantial and increasingly intense competition worldwide in the global payments industry may harm our business” for further discussion of the potential impact of competition on our business.

## RESEARCH AND DEVELOPMENT

Total research and development expense was \$953 million, \$834 million and \$792 million in 2017, 2016 and 2015, respectively.

## INTELLECTUAL PROPERTY

The protection of our intellectual property, including our trademarks (particularly those covering the PayPal name), patents, copyrights, domain names, trade dress and trade secrets is important to the success of our business. We seek to protect our intellectual property rights by relying on applicable laws and regulations in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights when offering or procuring products and services. We have routinely entered into confidentiality and invention assignment agreements with our employees and contractors and non-disclosure agreements with parties with whom we conduct business to control access to and limit disclosure of our proprietary information.

We pursue the registration of our domain names, trademarks and service marks in the U.S. and internationally. Additionally, we have filed U.S. and international patent applications covering certain aspects of our proprietary technology. We have registered our core brands as trademarks and domain names in the U.S. and a large number of other jurisdictions and have in place an active program to continue to secure trademarks and domain names that correspond to our brands in markets of interest.

For additional information regarding some of the risks relating to our intellectual property, including costs of protecting our intellectual property, see the information in “Item 1A. Risk Factors” under the captions “We are subject to patent litigation” and “We may be unable to adequately protect or enforce our intellectual property rights, or third parties may allege that we are infringing their intellectual property rights.”

## GOVERNMENT REGULATION

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. That focus continues to become even more heightened as regulators on a global basis focus on such important issues as countering terrorist financing, anti-money laundering, privacy and consumer protection. Some of the laws and regulations to which we are subject were enacted recently, and the laws and regulations applicable to us, including those enacted prior to the advent of digital and mobile payments, are continuing to evolve through legislative and regulatory action and judicial interpretation. Non-compliance with laws and regulations, increased penalties and enforcement actions related to non-compliance, changes in laws and regulations, or their interpretation, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business, results of operations and financial condition. Therefore, we monitor these areas closely to design compliant solutions for our customers who depend on us.

Government regulation impacts key aspects of our business. We are subject to regulations that affect the payments industry in the markets we operate.

**Payments Regulation.** Various laws and regulations govern the payments industry in the U.S. and internationally. In the U.S., PayPal, Inc. holds licenses to operate as a money transmitter (or its equivalent), which, among other things, subjects PayPal, Inc. to reporting requirements, bonding requirements, limitations on the investment of customer funds and inspection by state regulatory agencies. Outside the U.S., we provide localized versions of our service to customers through various foreign subsidiaries. The activities of those non-U.S. entities are, or may be, supervised by a financial regulatory authority in the jurisdictions in which they operate. Among other regulatory authorities, the Luxembourg Commission de Surveillance du Secteur Financier (the “CSSF”), the Australian Securities and Investment Commission, the Monetary Authority of Singapore, the Reserve Bank of India, and the Central Bank of Russia have asserted jurisdiction over some or all of our activities in country. This list is not



exhaustive, as there are numerous other regulatory agencies that have or may assert jurisdiction over our activities. The laws and regulations applicable to the payments industry in any given jurisdiction are subject to interpretation and change.

**Banking Agency Supervision.** We serve our customers in the European Union through PayPal (Europe) S.à.r.l. et Cie, SCA, a wholly-owned subsidiary that is licensed and subject to regulation as a bank in Luxembourg by the CSSF. Consequently, we must comply with rules and regulations of the banking industry, including those related to capitalization, funds management, corporate governance, anti-money laundering, disclosure, reporting and inspection. We also are, or may be, subject to banking-related regulations in other countries now or in the future related to our role in the financial industry. In addition, based on our relationships with our partner financial institutions, we are, or may be, subject to indirect regulation and examination by these financial institutions' regulators.

**Consumer Financial Protection Bureau.** The Consumer Financial Protection Bureau (the "CFPB") has significant authority to regulate consumer financial products in the United States, including consumer credit, deposit, payment, and similar products. As a large market participant of remittance transfers, the CFPB has direct supervisory authority over our business. The CFPB and other similar regulatory agencies in other jurisdictions may have broad consumer protection mandates that could result in the promulgation and interpretation of rules and regulations that may affect our business.

**Anti-Money Laundering and Counter-Terrorist Financing.** PayPal is subject to anti-money laundering ("AML") laws and regulations in the U.S. and other jurisdictions, as well as laws designed to prevent the use of the financial systems to facilitate terrorist activities. Our AML program is designed to prevent our payment network from being used to facilitate money laundering, terrorist financing, and other illicit activities, or to do business in countries or with persons and entities included on designated country or person lists promulgated by the U.S. Department of the Treasury's Office of Foreign Assets Controls ("OFAC") and equivalent authorities in other countries. Our AML compliance program, overseen by our AML/Bank Secrecy Act Officer, is composed of policies, procedures and internal controls, and is designed to address these legal and regulatory requirements and assist in managing money laundering and terrorist financing risks.

**Interchange Fees.** Interchange fees associated with four-party payments systems are being reviewed or challenged in various jurisdictions. For example, in the European Union ("EU"), the Multilateral Interchange Fee ("MIF") Regulation caps credit and debit interchange fees for cards payments and provides for business rules to be complied with by any company dealing with card transactions, including PayPal. As a result, the fees that we collect in certain jurisdictions may become the subject of regulatory challenge.

**Data Protection and Information Security.** Aspects of our operations or business are subject to privacy and data protection regulation in the United States ("U.S."), the EU and elsewhere. For example, the EU has adopted a comprehensive General Data Protection Regulation (the "GDPR"), which comes into effect in May 2018 and expands the scope of the EU data protection law to all foreign companies processing personal data of EU residents, imposes a strict data protection compliance regime, and includes new rights. In the United States, we are subject to information safeguarding requirements under the Gramm-Leach-Bliley Act that require the maintenance of a written, comprehensive information security program and in Europe, the operations of our Luxembourg bank are subject to information safeguarding requirements under the Luxembourg Banking Act, among other laws. Regulatory authorities around the world are considering numerous legislative and regulatory proposals concerning privacy and data protection. In addition, the interpretation and application of these privacy and data protection laws in the United States, Europe and elsewhere are often uncertain and in a state of flux.

**Anti-Corruption.** PayPal is subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, and similar anti-corruption laws in the jurisdictions in which it operates. Anti-corruption laws generally prohibit offering, promising, giving, accepting or authorizing others to provide anything of value, either directly or indirectly, to or from a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. We have implemented policies, procedures, and internal controls that are designed to comply with these laws and regulations.

**Additional Regulatory Developments.** Various regulatory agencies continue to examine a wide variety of issues, including virtual currencies, identity theft, account management guidelines, privacy, disclosure rules, security and marketing that may impact PayPal's business.

For an additional discussion on governmental regulation affecting our business, please see the risk factors related to regulation of our payments business and regulation in the areas of consumer privacy, data use and/or security in "Item 1A. Risk Factors" under the caption "Risk Factors That May Affect Our Business, Results of Operations and Financial Condition" and "Item 3. Legal Proceedings" included elsewhere in this Annual Report on Form 10-K.

## SEASONALITY

The Company does not experience meaningful seasonality with respect to net revenues. No individual quarter in 2017, 2016 or 2015 accounted for more than 30% of annual net revenue.

## FINANCIAL INFORMATION ABOUT SEGMENTS

We operate in one business segment and have one reportable segment. See “Note 11—Segment and Geographical Information” to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information including certain financial information about our operations in the U.S. and internationally. Additionally, please see the information in “Item 1A. Risk Factors” under the caption “Our international operations are subject to increased risks, which could harm our business,” which describes risks associated with our foreign operations.

## EMPLOYEES

As of December 31, 2017, we employed approximately 18,700 people globally, of whom approximately 10,600 were located in the U.S. We consider our relationship with our employees to be good.

## SEPARATION FROM EBAY INC.

PayPal Holdings, Inc. was incorporated in Delaware in January 2015 for the purpose of owning and operating eBay’s Payments business in connection with the separation and distribution described below. Prior to the contribution of this business to PayPal Holdings, Inc., which occurred prior to the distribution in July 2015, PayPal Holdings, Inc. had no operations. On July 17, 2015 (the “distribution date”), PayPal became an independent publicly traded company through the pro rata distribution by eBay of 100% of the outstanding common stock of PayPal to eBay stockholders (which we refer to as the “separation” or the “distribution”). Each eBay stockholder of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held on the record date. Approximately 1.2 billion shares of PayPal common stock were distributed on July 17, 2015 to eBay stockholders. PayPal’s common stock began “regular way” trading under the ticker symbol “PYPL” on the NASDAQ Stock Market on July 20, 2015. Prior to the separation, eBay transferred substantially all of the assets and liabilities and operations of eBay’s payments business to PayPal, which was completed in June 2015.

## AVAILABLE INFORMATION

The address of our principal executive offices is PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131. Our website is located at [www.paypal.com](http://www.paypal.com), and our investor relations website is located at <http://investor.paypal-corp.com>. From time to time, we may use our investor relations site and other online and social media channels, including our PayPal Stories Blog (<https://www.paypal.com/stories/us>), Twitter handle (@PayPal), LinkedIn page (<https://www.linkedin.com/company/paypal>), Facebook page (<https://www.facebook.com/PayPalUSA/>), YouTube channel (<https://www.youtube.com/paypal>), Dan Schulman’s LinkedIn profile (<https://www.linkedin.com/in/dan-schulman/>) and Dan Schulman’s Facebook profile (<https://www.facebook.com/DanSchulmanPayPal/>) to disclose material non-public information and comply with our disclosure obligations under Regulation Fair Disclosure. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge on our investor relations website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The content of our websites and information that we may post on or provide to online and social media channels, including those mentioned above, and information that can be accessed through our websites or these online and social media channels is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites or these online and social media channels are intended to be inactive textual references only.

## Item 1A. Risk Factors

The following discussion is divided into three sections. The first section, which begins immediately following this paragraph, discusses some of the risks that may adversely affect our business, results of operations and financial condition. The second section, captioned “Risks Related to the Separation and Our Operation as an Independent Publicly Traded Company,” discusses some of the risks relating to our separation into an independent publicly traded company. The third section, captioned “Risks Related to Our Common Stock,” discusses some of the risks relating to an investment in our Common Stock. You should carefully review all of these sections for important information regarding risks and uncertainties that affect us, in addition to the other information appearing in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected.

## RISK FACTORS THAT MAY AFFECT OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION

**Substantial and increasingly intense competition worldwide in the global payments industry may harm our business.**

The global payments industry is highly competitive, and we compete against a wide range of businesses, some of which are larger than we are, have a dominant and secure position, or offer other products and services to consumers and merchants that we do not offer. The global payments industry is rapidly changing, highly innovative and increasingly subject to regulatory scrutiny. Many of the areas in which we compete evolve rapidly with changing and disruptive technologies, shifting user needs, and frequent

introductions of new products and services. Competition may also intensify as businesses against which we compete or merchants enter into business combinations and alliances, and established companies in other segments expand to become competitive with our business.

We compete against a wide range of businesses with varying roles in all forms of payments, including:

- paper-based transactions (principally cash and checks);
- providers of traditional payment methods, particularly credit and debit cards and Automated Clearing House transactions (in particular, well-established banks);
- payment networks which facilitate payments for credit card users;
- providers of “digital wallets” which offer customers the ability to pay online and/or in-store through a variety of payment methods, including with mobile applications, through contactless payments, and with a variety of payment cards;
- providers of mobile payments solutions that use tokenized card data approaches and contactless payments (e.g., near field communication (“NFC”) or host card emulation functionality) to eliminate the need to swipe or insert a card or enter a personal identification number or password;
- payment-card processors that offer their services to merchants, including for “card on file” payments where the merchant invites the consumer to select a payment method for their first transaction and to use the same payment method for subsequent transactions;
- providers of “person-to-person” payments that facilitate individuals sending money with an email address or mobile phone number;
- merchants and merchant associations providing proprietary payment networks to facilitate payments within their own retail network;
- money remitters;
- providers of card readers for mobile devices and of other point-of-sale and multi-channel technologies; and
- providers of virtual currencies and distributed ledger technologies.

We often partner with many of these businesses and we consider the ability to continue establishing these partnerships as important to our business. Competition for relationships with these partners is intense and there can be no assurance that we will be able to continue to establish, grow or maintain these partner relationships.

We also face competition and potential competition from:

- service providers that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account or paying on credit;
- issuers of stored value targeted at online payments;
- other global online and mobile payment-services providers;
- other providers of online and mobile account-based payments;
- services targeting users of social networks and online gaming, including those offering social commerce and peer-to-peer payments;
- mobile payment services between bank accounts;
- payment services enabling banking customers to send and receive payments through their bank account, including through immediate or real-time payments systems;
- ecommerce services that provide special offers linked to a specific payment provider;
- services that help merchants accept and manage virtual currencies; and
- electronic funds transfer services as a method of payment for both online and offline transactions.

Some of these competitors have larger customer bases, volume, scale, resources, and market share than we do, which may provide significant competitive advantages. Some of our competitors may also be subject to less burdensome licensing, anti-money laundering, counter-terrorist financing, and other regulatory requirements. They may devote greater resources to the development, promotion, and sale of products and services, and they may offer lower prices or more effectively introduce their own innovative programs, products and services that adversely impact our growth.

We compete primarily on the basis of the following:

- ability to attract, retain and engage both merchants and consumers;
- ability to demonstrate that merchants will achieve incremental sales by offering PayPal services;
- consumer confidence in safety and security of transactions on our Payments Platform, including the ability for consumers to use PayPal products and services without sharing their financial information with the merchant or the party they are paying;
- simplicity of our fee structure;
- ability to develop services across multiple commerce channels, including mobile payments and payments at the retail point of sale;
- trust in our dispute resolution and buyer and seller protection programs;

- customer service;
- brand recognition;
- website, mobile platform and application onboarding, ease-of-use, speed, availability, and dependability;
- the technology- and payment-agnostic nature of our Payments Platform;
- system reliability and data security;
- ease and quality of integration into third-party mobile applications and operating systems; and
- quality of developer tools, such as our application programming interfaces and software development kits.

If we are not able to differentiate our products and services from those of our competitors, drive value for our customers, or effectively align our resources with our goals and objectives, we may not be able to compete effectively against our competitors. Our failure to compete effectively against any of the foregoing competitive threats could materially and adversely harm our business.

Substantially all of our net revenues each quarter come primarily from transactions involving payments during that quarter, which may result in significant fluctuations in our operating results that could adversely affect our business, financial condition, results of operations, and cash flows, as well as the trading price of our common stock.

Substantially all of our net revenues each quarter come primarily from transactions involving payments during that quarter. As a result, our operating and financial results have varied on a quarterly basis during our operating history, and may continue to fluctuate significantly as a result of a variety of factors, including as a result of the risks set forth in this “Risk Factors” section. It is difficult for us to forecast the level or source of our revenues or earnings accurately. In view of the rapidly evolving nature of our business, period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast expenses as a percentage of net revenues. Quarterly and annual expenses as a percentage of net revenues reflected in our financial statements may be significantly different from historical or projected rates. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. The trading price of our common stock may decline significantly as a result of the factors described in this paragraph.

#### Global and regional economic conditions could harm our business.

Our operations and performance depend significantly on global and regional economic conditions. Uncertainty about global and regional economic events and conditions may result in consumers and businesses postponing or lowering spending in response to tighter credit, higher unemployment, financial market volatility, fluctuations in foreign currency exchange rates and interest rates, government austerity programs, negative financial news, declines in income or asset values, and other factors. These and other global and regional economic events and conditions could have a material adverse impact on the demand for our products and services, including a reduction in the volume and size of transactions on our Payments Platform. In addition, any financial turmoil affecting the banking system or financial markets could cause additional consolidation of the financial services industry, significant financial service institution failures, new or incremental tightening in the credit markets, low liquidity, and extreme volatility or distress in the fixed income, credit, currency and equity markets, which could have a material adverse impact on our business.

#### If we cannot keep pace with rapid technological developments to provide new and innovative products and services, the use of our products and services and, consequently, our revenues could decline.

Rapid, significant, and disruptive technological changes impact the industries in which we operate, including developments in payment card tokenization, mobile, social commerce (i.e., ecommerce through social networks), authentication, virtual currencies (including distributed ledger technologies), and NFC and other proximity payment devices, such as contactless payments. We cannot predict the effects of technological changes on our business. In addition to our own initiatives and innovations, we rely in part on third parties, including some of our competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the industries in which we operate will continue to emerge and may be superior to, or render obsolete, the technologies we currently use in our products and services. Developing and incorporating new technologies into our products and services may require substantial expenditures, take considerable time, and ultimately may not be successful. In addition, our ability to adopt new products and services and to develop new technologies may be inhibited by industry-wide standards, payments networks, changes to laws and regulations, resistance to change from consumers or merchants, third-party intellectual property rights, or other factors. Our success will depend on our ability to develop and incorporate new technologies and adapt to technological changes and evolving industry standards; if we are unable to do so in a timely or cost-effective manner, our business could be harmed.

#### Changes in how consumers fund their PayPal transactions could harm our business.

We pay transaction fees when consumers fund payment transactions using credit cards, lower fees when consumers fund payments with debit cards, and nominal fees when consumers fund payment transactions by electronic transfer of funds from bank accounts, or from an existing PayPal account balance or through our PayPal Credit products. Our financial success is sensitive to changes in the rate at which our consumers fund payments using credit and debit cards (collectively, “payment cards”), which can significantly increase our costs. Although we provide consumers with the opportunity to use their existing PayPal account balance to fund payment transactions, some of our consumers may prefer to use payment cards, especially if these payment cards offer features and benefits that are not provided as part of their PayPal accounts. An increase in the portion of our payment

volume funded using payment cards or in fees associated with our funding mix, or other events or developments that make it more difficult or costly for us to fund transactions with lower-cost funding options, could materially and adversely affect our financial performance and significantly harm our business.

We have entered into strategic partnerships with major payment card networks and/or issuing banks to promote greater consumer choice and make it easier for merchants to accept and consumers to pay with these partners' credit and/or debt cards and to allow us to gain access to these partners' tokenization services for in-store point of sale PayPal transactions. These arrangements may have an uncertain impact on our business. While we anticipate that these and similar strategic partnerships we may enter into in the future will result in an increase in the number of transactions and transaction volume that we process, we also anticipate that a greater percentage of customer transactions will be executed using a payment card, which would likely increase the transaction costs associated with our funding mix, which could adversely affect our business and results of operations.

#### [Our business is subject to cyberattacks and security and privacy breaches.](#)

Our business involves the collection, storage, processing and transmission of customers' personal data, including financial information and information about how they interact with our Payments Platform. In addition, a significant number of our customers authorize us to bill their payment card or bank accounts directly for all transaction and other fees charged by us. We have built our reputation on the premise that our Payments Platform offers customers a more secure way to make payments. An increasing number of organizations, including large merchants and businesses, other large technology companies, financial institutions, and government institutions, have disclosed breaches of their information security systems, some of which have involved sophisticated and highly targeted attacks, including on their websites and infrastructure.

The techniques used to obtain unauthorized, improper or illegal access to our systems, our data or customers' data, disable or degrade service, or sabotage systems are constantly evolving, may be difficult to detect quickly, and often are not recognized until launched against a target. Unauthorized parties may attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities or those of our customers, partners or vendors, or attempting to fraudulently induce (often through spear phishing attacks) our employees, customers, partners, vendors or other users of our systems into disclosing user names, passwords, payment card information, or other sensitive information, which may in turn be used to access our information technology systems. Certain efforts may be state-sponsored and supported by significant financial and technological resources, making them even more sophisticated and difficult to detect. We believe that PayPal is a particularly attractive target for such breaches and attacks due to our name and brand recognition and the widespread adoption and use of our products and services. Although we have developed systems and processes designed to protect our data and customer data and to prevent data loss and other security breaches, and expect to continue to expend significant resources to bolster these protections, these security measures cannot provide absolute security. Our information technology and infrastructure may be vulnerable to cyberattacks or security breaches, and third parties may be able to access our customers' personal or proprietary information and payment card data that are stored on or accessible through those systems. Our security measures may also be breached due to human error, malfeasance, system errors or vulnerabilities, or other irregularities. Actual or perceived breaches of our security could interrupt our operations, result in our systems or services being unavailable, result in improper disclosure of data, materially harm our reputation and brands, result in significant regulatory scrutiny and legal and financial exposure, cause us to incur significant remediation costs, lead to loss of customer confidence in, or decreased use of, our products and services, divert the attention of management from the operation of our business, result in significant compensation or contractual penalties from us to our customers and their business partners as a result of losses to them or claims by them, and adversely affect our business and results of operations. In addition, any cyberattacks or data security breaches affecting companies that we acquire or our customers, partners or vendors (including data center and cloud computing providers) could have similar negative effects. See Note 3—"Business Combinations," Note 4—"Goodwill and Intangible Assets" and Note 13—"Commitments and Contingencies" to our consolidated financial statements for disclosure relating to the suspension of operations of TIO Networks ("TIO") (which we acquired in July 2017) as part of an ongoing investigation of security vulnerability of the TIO platform. Actual or perceived vulnerabilities or data breaches have led and may lead to claims against us.

In addition, under payment card rules and our contracts with our card processors, if there is a breach of payment card information that we store, or that is stored by our direct payment card processing customers, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. We also expect to expend significant additional resources to protect against security or privacy breaches, and may be required to redress problems caused by breaches. Financial services regulators in various jurisdictions, including the U.S. and the EU, have implemented authentication requirements for banks and payment processors intended to reduce online fraud, which could impose significant costs, require us to change our business practices, make it more difficult for new customers to join PayPal, and reduce the ease of use of our products, which could harm our business. Additionally, while we maintain insurance policies, they may not be adequate to reimburse us for losses caused by security breaches.

#### [Systems failures and resulting interruptions in the availability of our websites, applications, products or services could harm our business.](#)

Our systems and those of our services providers and partners may experience service interruptions or degradation because of hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes,



hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses or other malware, or other events. Our systems also may be subject to break-ins, sabotage, and intentional acts of vandalism. Some of our systems are not fully redundant, and our disaster recovery planning may not be sufficient for all eventualities. In addition, as a provider of payments solutions, we are subject to heightened scrutiny by regulators that may require specific business continuity, resiliency and disaster recovery plans, and more rigorous testing of such plans, which may be costly and time-consuming and may divert our resources from other business priorities.

We have experienced and expect to continue to experience system failures, denial of service attacks, and other events or conditions from time to time that interrupt the availability, or reduce or adversely affect the speed or functionality of our products and services. These events have resulted and likely will result in loss of revenue. A prolonged interruption in the availability or reduction in the availability, speed or functionality of our products and services could materially harm our business. Frequent or persistent interruptions in our services could cause current or potential customers to believe that our systems are unreliable, leading them to switch to our competitors or to avoid or reduce the use of our products and services, and could permanently harm our reputation and brands. Moreover, if any system failure or similar event results in damages to our customers or their business partners, these customers or partners could seek significant compensation or contractual penalties from us for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address, and could have other consequences described in this “Risk Factors” section under the caption “Our business is subject to cyberattacks and security and privacy breaches.”

Our Payments Platform has experienced and may in the future experience intermittent unavailability. The full-time availability and expeditious delivery of our products and services is critical to our goal of gaining widespread acceptance among consumers and merchants for digital payments. We have undertaken certain system upgrades and re-platforming efforts designed to improve our reliability and speed. These efforts are costly and time-consuming, involve significant technical risk and may divert our resources from new features and products, and there can be no guarantee that these efforts will succeed. Because we are a regulated financial institution in certain jurisdictions, frequent or persistent site interruptions could lead to regulatory scrutiny, significant fines and penalties, and mandatory and costly changes to our business practices, and ultimately could cause us to lose existing licenses that we need to operate or prevent or delay us from obtaining additional licenses that may be required for our business.

We also rely on facilities, components and services supplied by third parties, including data center facilities and cloud storage services. If these third parties cease to provide the facilities or services, experience operational interference or disruptions, breach their agreements with us, or fail to perform their obligations and meet our expectations, our operations could be disrupted or otherwise negatively affected, which could result in customer dissatisfaction and damage to our reputation and brands, and materially and adversely affect our business. We do not carry business interruption insurance sufficient to compensate us for all losses that may result from interruptions in our service as a result of systems failures and similar events.

In addition, we are continually improving and upgrading our information systems and technologies. Implementation of new systems and technologies is complex, expensive and time-consuming. If we fail to timely and successfully implement new information systems and technologies, or improvements or upgrades to existing information systems and technologies, or if such systems and technologies do not operate as intended, this could have an adverse impact on our business, internal controls (including internal controls over financial reporting), results of operations and financial condition.

#### Changes to payment card networks or bank fees, rules, or practices could harm our business.

We rely on banks or other payment processors to process transactions and pay fees for the services. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction that accesses their networks. Payment card networks have or may impose special fees or assessments for transactions that are executed through a “digital wallet” such as PayPal’s, which could particularly impact us and significantly increase our costs. Our payment card processors may have the right to pass any increases in interchange fees and assessments on to us as well as increase their own fees for processing. Any changes in interchange fees and assessments could increase our operating costs and reduce our operating income. We have entered into strategic partnerships with Visa and Mastercard to further expand our relationships in a way that will make it easier for merchants to accept and consumers to choose to pay with Visa and Mastercard credit and debit cards. During the terms of these agreements, Visa and Mastercard have each agreed to not enact or impose any fees or rules that solely target PayPal. Upon termination of the agreements, PayPal could become subject to special digital wallet fees or other special assessments.

In addition, in some jurisdictions, governmental regulations have required payment card networks to reduce interchange fees. Any material change in credit or debit card interchange rates in the U.S. or other markets, including as a result of changes in interchange fee limitations, could adversely affect our competitive position against traditional credit and debit card service providers and our business.

We are required by our processors to comply with payment card network operating rules, including special operating rules for payment service providers to merchants. We have agreed to reimburse our processors for any fines they are assessed by payment

card networks as a result of any rule violations by us or our merchants. The payment card networks set and interpret the card operating rules. From time to time, the networks have alleged that various aspects of our business model violate these operating rules. If such allegations are not resolved favorably, they may result in significant fines and penalties or require changes in our business practices that may be costly. The payment card networks could adopt new operating rules or interpret or re-interpret existing rules that we or our processors might find difficult or even impossible to follow, or costly to implement. As a result, we could lose our ability to give consumers the option of using payment cards to fund their payments or the choice of currency in which they would like their payment card to be charged. If we are unable to accept payment cards or are limited in our ability to do so, our business would be adversely affected.

We and our payment card processors have implemented specific business processes for merchants to comply with payment card network operating rules for providing services to merchants. Any failure to comply with these rules could result in fines. We are also subject to fines from payment card networks if we fail to detect that merchants are engaging in activities that are illegal or that are considered “high risk,” including the sale of certain types of digital content. For “high risk” merchants, we must either prevent such merchants from using PayPal services or register such merchants with the payment card networks and conduct additional monitoring with respect to such merchants. Although the amount of these fines has not been material to date, additional fines in the future could become significant and could result in a termination of our ability to accept payment cards or require changes in our process for registering new customers, which would adversely affect our business. Payment card network rules may also increase the cost of, impose restrictions on, or otherwise negatively impact the development of, our retail point-of-sale solutions, which may negatively impact their deployment and adoption.

**Failure to deal effectively with fraud, fictitious transactions, bad transactions, and negative customer experiences would increase our loss rate and harm our business, and could severely diminish merchant and consumer confidence in and use of our services.** In the event that merchants do not fulfill their obligations to consumers or a merchant’s goods or services do not match the merchant’s description, we may incur substantial losses as a result of claims from consumers. We seek to recover such losses from the merchant, but may not be able to recover in full if the merchant is unwilling or unable to pay. In addition, in the event of the bankruptcy or other business interruption of a merchant that sells goods or services in advance of the date of their delivery or use (e.g., airline, cruise or concert tickets, custom-made goods and subscriptions), we could be liable to the buyers of such goods or services, either through our buyer protection program or through chargebacks on payment cards used by customers to fund their payment. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may be insufficient.

We also incur substantial losses from claims that the consumer did not authorize the purchase, from customer fraud, from erroneous transactions, and as a result of customers who have closed bank accounts or have insufficient funds in their bank accounts to satisfy payments. In addition, if losses incurred by us related to payment card transactions become excessive, they could potentially result in our losing the right to accept payment cards for payment, which would harm our business. We have taken measures to detect and reduce the risk of fraud, but these measures need to be continually improved and may not be effective against fraud, particularly new and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business could be harmed.

**We are exposed to fluctuations in foreign currency exchange rates.**

We have significant operations internationally that are denominated in foreign currencies, including the British Pound, Euro, Australian Dollar and Canadian Dollar, subjecting us to foreign currency risk. The strengthening or weakening of the U.S. dollar versus the British Pound, Euro, Australian Dollar, and Canadian Dollar impacts the translation of our net revenues generated in these foreign currencies into the U.S. dollar. In connection with providing our services in multiple currencies, we may face financial exposure if we incorrectly set our foreign exchange rates or as a result of fluctuations in foreign exchange rates between the times that we set them. Given that we also hold some corporate and customer funds in non-U.S. currencies, our financial results are affected by the remeasurement of these non-U.S. currencies into U.S. dollars. We also have foreign exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. While we regularly enter into transactions to hedge foreign currency risk for portions of our foreign currency translation and balance sheet exposure, it is impossible to predict or eliminate the effects of this exposure. Fluctuations in foreign exchange rates could materially and adversely impact our financial results.

**Any factors that reduce cross-border trade or make such trade more difficult could harm our business.**

Cross-border trade (i.e., transactions where the merchant and consumer are in different countries) is an important source of our revenue and profits. Cross-border transactions generally provide higher revenues and operating income than similar transactions that take place within a single country or market. Cross-border trade also represents our primary (and in some cases, our only) presence in certain important markets.

Cross-border trade is subject to, and may be negatively impacted by, foreign exchange rate fluctuations. In addition, the interpretation and application of laws of multiple jurisdictions (e.g., the jurisdiction of the merchant and of the consumer) are often extremely complicated in the context of cross-border trade. Changes to or the interpretation and/or application of laws and regulations applicable to cross-border trade could impose additional requirements and restrictions, impose conflicting obligations,



and increase the costs associated with cross-border trade. Any factors that increase the costs of cross-border trade for us or our customers or that restrict, delay, or make cross-border trade more difficult or impractical would lower our revenues and profits and could harm our business.

#### The United Kingdom's departure from the EU could adversely affect us.

The United Kingdom ("U.K.") held a referendum in June 2016 in which a majority of voters approved an exit from the EU ("Brexit"). In March 2017, the U.K. invoked Article 50 of the Treaty on European Union, which triggered a two-year period, with extension subject to unanimous consent by the other EU member states, during which the U.K. government will negotiate its withdrawal agreement with the EU. Brexit could adversely affect U.K., regional (including European), and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro, which in turn could adversely affect our customers and companies with which we do business, particularly in the U.K. In addition, Brexit could lead to legal uncertainty and see national laws and regulations in the U.K. diverge from EU laws and regulations, as the U.K. determines which EU laws to replace or replicate. In particular, depending on the terms of Brexit, we may face new regulatory costs and challenges, including the following:

- we could lose our ability for our EU operations to offer services on a cross-border basis into the U.K. market utilizing regulatory permissions of PayPal (Europe) S.à r.l. et Cie, SCA ("PayPal (Europe)"), our wholly-owned subsidiary that is licensed and subject to regulation as a credit institution in Luxembourg, and our corresponding ability to work with the Luxembourg regulators as the lead authority for various aspects of our U.K. operations;
- we could be required to obtain additional regulatory permissions to operate in the U.K. market, adding costs and potential inconsistency to our business (and, depending on the capacity of the U.K. authorities, the criteria for obtaining permission, and any possible transitional arrangements, there is a risk that our business in the U.K. could be materially affected or disrupted);
- we could be required to comply with regulatory requirements in the U.K. that are in addition to, or inconsistent with, the regulatory requirements of the EU; and
- our ability to attract and retain the necessary human resources in appropriate locations to support the U.K. business and the EU business of PayPal could be adversely impacted.

Any of the effects of Brexit described above and others that we cannot anticipate could adversely affect our business, results of operations, financial condition and cash flows.

#### Our business is subject to extensive government regulation and oversight, as well as extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations.

Our business is subject to laws, rules, regulations, policies, and legal interpretations in the markets in which we operate, including, but not limited to, those governing banking, credit, deposit taking, cross-border and domestic money transmission, foreign exchange, privacy, data protection, cybersecurity, banking secrecy, payment services (including payment processing and settlement services), consumer protection, economic and trade sanctions, anti-money laundering, and counter-terrorist financing. The legal and regulatory requirements applicable to us are extensive, complex, frequently changing, and increasing in number, and may impose overlapping and/or conflicting requirements or obligations.

Financial and political events have increased the level of regulatory scrutiny on the payments industry, and regulatory agencies may view matters or interpret laws and regulations differently than they have in the past and in a manner adverse to our business. Our success and increased visibility may result in increased regulatory oversight and tighter enforcement of rules and regulations that may apply to our business.

As we expand and localize our international activities, we are increasingly becoming obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to customers worldwide, one or more jurisdictions may claim that we or our customers are required to comply with their laws. Laws regulating the Internet, mobile and related technologies outside of the U.S. often impose different, more specific, or even conflicting obligations on us, as well as broader liability. For example, certain transactions that may be permissible in a local jurisdiction may be prohibited by regulations of U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") or U.S. anti-money laundering or counter-terrorist financing regulations.

Any failure or perceived failure to comply with existing or new laws, regulations or orders of any governmental authority (including changes to or expansion of the interpretation of those laws, regulations or orders), including those discussed in this risk factor, may subject us to significant fines, penalties, criminal and civil lawsuits, forfeiture of significant assets, and enforcement actions in one or more jurisdictions, result in additional compliance and licensure requirements, increase regulatory scrutiny of our business, restrict our operations, and force us to change our business practices, make product or operational changes or delay planned product launches or improvements. Any of the foregoing could, individually or in the aggregate, damage our brands and business, and adversely affect our results of operations and financial condition. The complexity of U.S. federal and state regulatory and enforcement regimes, coupled with the global scope of our operations and the evolving global regulatory environment, could result in a single event giving rise to a large number of overlapping investigations and legal and regulatory proceedings by multiple government authorities in different jurisdictions. We have implemented policies and procedures designed to help ensure

compliance with applicable laws, and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations.

### **Payments Regulation**

In the U.S., PayPal, Inc. has obtained licenses to operate as a money transmitter (or its equivalent) in the states where it is required, as well as in the District of Columbia, the U.S. Virgin Islands and Puerto Rico. These licenses include not only the PayPal branded products and services in these states, but also our Braintree, Venmo, Xoom and TIO branded products and services. As a licensed money transmitter, PayPal is subject to restrictions with respect to the investment of customer funds, reporting requirements, bonding requirements and inspection by state regulatory agencies. Accordingly, if we violate these laws or regulations, we could be subject to liability and/or additional restrictions, forced to cease doing business with residents of certain states, forced to change our business practices or required to obtain additional licenses or regulatory approvals, which could impose substantial costs.

While we currently allow our customers with payment cards to send payments from approximately 200 markets, we allow customers in only approximately half of those markets (including the U.S.) to also receive payments, in some cases with significant restrictions on the manner in which customers can withdraw funds. These limitations may adversely affect our ability to grow our business in these markets.

We provide our services to customers in the EU through PayPal (Europe), our wholly-owned subsidiary that is licensed and subject to regulation as a credit institution in Luxembourg. Accordingly, PayPal (Europe) is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, fund management, corporate governance, privacy, data protection, information security, banking secrecy, taxation, sanctions, or other requirements imposed on Luxembourg banks. In addition, EU laws and regulations are typically subject to different and potentially inconsistent interpretations by the countries that are members of the EU, which can make compliance more costly and operationally difficult to manage. Moreover, the countries that are EU members may each have different and potentially inconsistent domestic regulations implementing European Directives, including the EU Payment Services Directive and the E-Money Directive, which could make compliance more costly and operationally difficult to manage. The Revised Payment Services Directive ("PSD2") entered into force in January 2016 and is in the process of being implemented into national legislation, with certain requirements effective January 13, 2018. The implementation of the PSD2 may negatively affect our business. PSD2 seeks to enable new payment models whereby a newly formed category of regulated payment provider would be able to access bank and payment accounts (including PayPal accounts) for the purposes of accessing account information or initiating a payment on behalf of a customer. Such access could subject us to data security and other legal and financial risks and could create new competitive forces and new types of competitors in the European payments market. PSD2 seeks to regulate more online platforms that handle payments for their sellers. PayPal merchants with affected business models which are not licensed, or which do not benefit from exemptions or integrate a compliant marketplaces solution may not be able to offer PayPal products in the future. PSD2 also imposes new standards for payment security and strong customer authentication that may make it more difficult and time consuming to carry out a PayPal transaction, which may adversely impact PayPal's customer value proposition and its European business.

Finally, if the business activities of PayPal (Europe) exceed certain thresholds, or if the European Central Bank ("ECB") determines that PayPal (Europe) is a significant supervised entity or that some activity of PayPal (Europe) is deemed subject to oversight by the ECB, PayPal (Europe) could become directly regulated by the ECB in addition to the Luxembourg regulator, the Commission de Surveillance du Secteur Financier (the "CSSF"), as its national supervisor, which could subject us to additional requirements and would likely increase compliance costs.

In Australia, we serve our customers through PayPal Australia Pty. Ltd. ("PayPal Australia"), which is licensed by the Australian Securities and Investments Commission as a provider of a non-cash payment product and by the Australian Prudential Regulation Authority as a purchased payment facility provider, which is a type of authorized depository institution. Accordingly, PayPal Australia is subject to significant fines or other enforcement action if it violates the product disclosure, reporting, anti-money laundering, capital requirements, privacy, corporate governance or other requirements imposed on Australian depository institutions.

In Hong Kong, we serve our customers through PayPal Hong Kong Limited ("PayPal Hong Kong"), which is licensed by the Hong Kong Monetary Authority as an issuer of stored value facility ("SVF Licensee"). Accordingly, PayPal Hong Kong is subject to significant fines or other enforcement action if it violates the reporting, anti-money laundering, capital requirements, privacy, corporate governance, risk management, float management, and/or any other requirements imposed on SVF Licensees.

In many of the other markets in which we do business, we serve our customers through PayPal Pte. Ltd., our wholly-owned subsidiary based in Singapore. PayPal Pte. Ltd. is supervised by the Monetary Authority of Singapore and designated as a holder of a stored value facility, but does not hold a remittance license. As a result, PayPal Pte. Ltd. is not able to offer outbound remittance payments (including donations to charities) from Singapore, and can only offer payments for the purchase of goods and services in Singapore. In many of the markets (other than Singapore) served by PayPal Pte. Ltd., it is unclear and uncertain whether our Singapore-based service is subject only to Singapore law or, if it is subject to the application of local laws, whether such local laws would require a payment processor like us to be licensed as a payments service, bank, financial institution or otherwise.

We are also subject to regulation in other markets in which we do business, and we have been and expect to continue to be required to apply for various licenses, certifications and regulatory approvals in a number of the countries where we provide our services. There can be no assurance that we will be able to obtain any such licenses, certifications, and approvals. In addition, there are substantial costs and potential product changes involved in maintaining such licenses, certifications, and approvals, and we could be subject to fines or other enforcement action if we are found to violate disclosure, reporting, anti-money laundering, capitalization, corporate governance or other requirements of such licenses. These factors could impose substantial additional costs and involve considerable delay to the development or provision of our products or services, or could require significant and costly operational changes or prevent us from providing our products or services in a given market.

In many countries, it may not be clear whether we are required to be licensed as a payment services provider, bank, financial institution or otherwise. In such markets, we may rely on local banks to process payments and conduct foreign exchange transactions in local currency. Local regulators may use their power to slow or halt payments to local merchants conducted through local banks or otherwise prohibit us from doing business in a country. Such regulatory actions or the need to obtain licenses, certifications or other regulatory approvals could impose substantial costs, involve considerable delay to the provision or development of our services, require significant and costly operational changes, impose restrictions, limitations, or additional requirements on our business, or prevent us from providing any products or services in a given market.

### **Consumer Protection**

The financial services sector is subject to significant regulation and we are subject to consumer protection laws and regulations in the countries in which we operate. In the U.S., we are subject to federal and state consumer protection laws and regulations applicable to our activities, including the Electronic Fund Transfer Act ("EFTA") and Regulation E as implemented by the Consumer Financial Protection Bureau ("CFPB"). These regulations require us to provide advance disclosure of changes to our services, follow specified error resolution procedures, and reimburse consumers for losses from certain transactions not authorized by the consumer, among other requirements. Additionally, technical violations of consumer protection laws could result in the assessment of actual damages or statutory damages or penalties of up to \$1,000 in individual cases or up to \$500,000 per violation in any class action and treble damages in some instances; we could also be liable for plaintiffs' attorneys' fees in such cases. We are subject to, and have paid amounts in settlement of, lawsuits containing allegations that our business violated the EFTA and Regulation E or otherwise advance claims for relief relating to our business practices (e.g., that we improperly held consumer funds or otherwise improperly limited consumer accounts).

In October 2016, the CFPB issued a final rule on prepaid accounts. The rule's definition of prepaid account includes certain accounts that are capable of being loaded with funds and whose primary function is to conduct transactions with multiple, unaffiliated merchants, at ATMs and/or for person-to-person transfers, including certain digital wallets. The rule's requirements include: the disclosure of fees and other information to the consumer prior to the creation of a prepaid account; the extension of Regulation E liability limits and error-resolution requirements to all prepaid accounts; the application of Regulation Z credit card requirements to prepaid accounts with overdraft and credit features; and the submission of prepaid account agreements to the CFPB and their publication to the general public. In April 2017, the CFPB delayed the effective date of the final rule on prepaid accounts to April 1, 2018, and indicated that it would review, among other issues, the linking of credit cards to digital wallets that are capable of storing funds. In June 2017, the CFPB released proposed changes to its final rule, and in January 2018, the CFPB issued its final rule, with an effective date of April 1, 2019. We are evaluating the final rule and its requirements. Implementation of the rule could require us to make substantial changes to our business practices and the design of certain products, allocate additional resources, and increase our costs, which could negatively affect our business.

In May 2015, we entered into a Stipulated Final Judgment and Consent Order ("Consent Order") with the CFPB in which we settled regulatory claims arising from PayPal Credit practices between 2011 and 2015. The Consent Order included obligations on PayPal to pay \$15 million in redress to consumers and a \$10 million civil monetary penalty, and required PayPal to make various changes to PayPal Credit disclosures and related business practices. We continue to cooperate and engage with the CFPB and work to ensure compliance with the Consent Order, which may result in us incurring additional costs.

PayPal (Europe) principally offers its services in EU countries through a "passport" notification process through the Luxembourg regulator to regulators in other EU member states pursuant to EU regulation. Regulators in these countries could notify PayPal (Europe) of local consumer protection laws that apply to its business, in addition to Luxembourg consumer protection law, and could also seek to persuade the Luxembourg regulator to order PayPal (Europe) to conduct its or the PayPal group's activities in the local country directly or through a branch office. These or similar actions by these regulators could increase the cost of, or delay, our plans to expand our business in EU countries.

### **Economic and Trade Sanctions**

We are required to comply with U.S. economic and trade sanctions administered by OFAC. We have self-reported to OFAC certain transactions that were inadvertently processed but subsequently identified as possible violations of U.S. economic and trade sanctions. In March 2015, we reached a settlement with OFAC regarding possible violations arising from our sanctions compliance practices between 2009 and 2013, prior to the implementation of our real-time transaction scanning program. Subsequently, we have self-reported additional transactions as possible violations, and we have received new subpoenas from OFAC seeking

additional information about certain of these transactions. Such self-reported transactions could result in claims or actions against us, including litigation, injunctions, damage awards, fines or penalties, or require us to change our business practices in a manner that could result in a material loss, require significant management time, result in the diversion of significant operational resources or otherwise harm our business. Furthermore, compliance with economic and trade sanctions in force in one jurisdiction may conflict with the laws and regulations of other jurisdictions in which we operate and can expose us to the risk of fines, sanctions and penalties.

### **Anti-Money Laundering and Counter-Terrorist Financing**

We are subject to various anti-money laundering and counter-terrorist financing laws and regulations around the world that prohibit, among other things, our involvement in transferring the proceeds of criminal activities. U.S. and other regulators globally continue to increase their scrutiny of compliance with these obligations, which may require us to further revise or expand our compliance program, including the procedures we use to verify the identity of our customers and to monitor international and domestic transactions. Many countries in which we operate also have anti-money laundering and counter-terrorist financing laws and regulations, and we have been and will continue to be required to make changes to our compliance program in various jurisdictions in response. Regulators regularly re-examine the transaction volume thresholds at which we must obtain and keep applicable records or verify identities of customers and any change in such thresholds could result in greater costs for compliance. In the EU, the implementation of the Fourth Anti-Money Laundering Directive and the regulation on information accompanying transfer of funds (commonly known as the Revised Wire Transfer Regulation) are expected to make compliance more costly and operationally difficult to manage, lead to increased friction for customers, and result in a decrease in business. As of December 2017, PayPal (Europe)'s home state, Luxembourg, had not yet implemented all of the provisions of the Fourth Anti-Money Laundering Directive and there is uncertainty as to the exact requirements with which PayPal (Europe) will be required to comply. Penalties for non-compliance with the Fourth Anti-Money Laundering Directive could include fines of up to 10% of PayPal (Europe)'s total annual turnover. EU institutions are also proposing changes to the Fourth Anti-Money Laundering Directive which could be even more stringent.

### **Privacy and Protection of User Data**

We are subject to a number of laws, rules, directives and regulations (which we refer to as "privacy laws") relating to the collection, use, retention, security, processing and transfer (which we refer to as "process") of personally identifiable information about our customers and employees (which we refer to as "personal data") in the countries where we operate. Much of the personal data that we process, especially financial information, is regulated by multiple privacy laws and, in some cases, the privacy laws of multiple jurisdictions. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among us, our subsidiaries, and other parties with which we have commercial relationships.

Regulatory scrutiny of privacy, data protection, and the collection, use and sharing of data is increasing around the world. There is uncertainty associated with the legal and regulatory environment relating to privacy and data protection laws, which continue to develop in ways we cannot predict, including with respect to evolving technologies such as cloud computing. Privacy and data protection laws may be interpreted and applied inconsistently from country to country and impose inconsistent or conflicting requirements. Complying with varying jurisdictional requirements could increase the costs and complexity of compliance or require us to change our business practices in a manner adverse to our business, and violations of privacy and data protection-related laws may expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business and reputation. In addition, compliance with inconsistent privacy laws may restrict our ability to provide products and services to our customers.

PayPal relies on a variety of compliance methods to transfer personal data of EU citizens to the U.S., including reliance on Binding Corporate Rules ("BCRs") for internal transfers of certain types of personal data and Standard Contractual Clauses ("SCCs") as approved by the European Commission for transfers to and from third parties. PayPal must also ensure that third parties processing personal data of PayPal's EU customers and/or employees outside of the EU have compliant transfer mechanisms. In October 2015, the European Court of Justice invalidated U.S.-EU Safe Harbor framework clauses that were previously relied upon by some PayPal vendors to lawfully transfer personal data of EU citizens to U.S. companies, and PayPal entered into SCCs with those third parties who had previously relied on the U.S.-EU Safe Harbor framework. In July 2016, the U.S. and EU authorities agreed on a replacement for Safe Harbor known as "Privacy Shield." Both the Privacy Shield framework and SCCs are facing legal challenges in the European justice system. To the extent that the Privacy Shield or SCCs are invalidated, PayPal's ability to process EU personal data with third parties outside of the EU could be jeopardized.

In 2016, the EU adopted a comprehensive overhaul of its data protection regime from the current national legislative approach to a single European Economic Area Privacy Regulation, the General Data Protection Regulation ("GDPR"), which comes into effect in May 2018. The proposed EU data protection regime expands the scope of the EU data protection law to all foreign companies processing personal data of EU residents, imposes a strict data protection compliance regime with severe penalties of up to the greater of 4% of worldwide turnover and €20 million, and includes new rights such as the "portability" of personal data. Although the GDPR will apply across the EU without a need for local implementing legislation, local data protection authorities ("DPAs") will still have the ability to interpret the GDPR through so-called opening clauses, which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis. We are evaluating the rule and its

requirements. Implementation of the GDPR could require us to change our business practices and increase the costs and complexity of compliance.

PayPal also faces additional potential challenges from local DPAs. Because PayPal (Europe) is headquartered in Luxembourg and subject to regulation as a bank in that jurisdiction, we have relied on the “one-stop-shop” concept under which Luxembourg has been our lead data protection regulator in the EU. However, a 2015 European Court of Justice ruling (*Weltimmo*) affecting companies that do business in the EU potentially could make us subject to the local data protection laws or regulatory enforcement activities of the various EU member states in which we have established legal entities and which apply privacy laws that are different than, and may conflict with, Luxembourg privacy laws.

In addition, because of the large number of text messages, emails, phone calls and other communications we send or make to our customers for various business purposes, communication-related privacy laws that provide a specified monetary damage award or fine for each violation could result in particularly significant damage awards or fines. For example, under the Telephone Consumer Protection Act (“TCPA”), in the U.S., plaintiffs may seek actual monetary loss or statutory damages of \$500 per violation, whichever is greater, and courts may treble the damage award for willful or knowing violations. We have been, and may continue to be subject to lawsuits (including class-action lawsuits) containing allegations that our business violated the TCPA. These lawsuits seek damages (including statutory damages) and injunctive relief, among other remedies. Given the large number of communications we send to our customers, a determination that there have been violations of the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

Data protection, privacy and information security have become the subject of increasing public, media, regulatory and legislative concern. We post on our websites and applications our privacy policies and practices regarding the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies, with any applicable regulatory requirements or orders, or with privacy, data protection, information security or consumer protection-related laws and regulations in one or more jurisdictions could result in proceedings or actions against us by governmental entities or others, including class action privacy litigation in certain jurisdictions, subject us to significant fines, penalties, judgments and negative publicity, require us to change our business practices, increase the costs and complexity of compliance, and adversely affect our business. As noted above, we are also subject to the possibility of security and privacy breaches, which themselves may result in a violation of privacy laws.

**If one or more of our counterparty financial institutions default on their financial or performance obligations to us or fail, we may incur significant losses.**

We have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the U.S. and abroad. As part of our currency hedging activities, we enter into transactions involving derivative financial instruments with various financial institutions. Certain banks and financial institutions are also lenders under our credit facilities. We regularly monitor our exposure to counterparty credit risk, and actively manage this exposure to mitigate the associated risk. Despite these efforts, we may be exposed to the risk of default by, or deteriorating operating results or financial condition or failure of, these counterparty financial institutions. The risk of counterparty default, deterioration or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default or to access or recover our assets that are deposited or held in accounts with such counterparty may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

**PayPal is not a bank or licensed lender in the U.S. and relies upon third parties to make loans and provide other products critical to our business.**

As PayPal is neither a chartered financial institution nor licensed to make loans in any state in the U.S., we rely on a third-party chartered financial institution to issue the PayPal Credit consumer product in the U.S., and different chartered financial institutions to issue the PayPal Working Capital product and other business loan products in the U.S. These chartered financial institutions are state chartered industrial banks. Any termination or interruption in a partner bank's ability to lend could result in us being unable or unwilling to offer our consumer and business loan products, which could materially and adversely affect our ability to issue our loan products in the U.S. and our business. In the event of a partner bank's inability or unwillingness to lend, we may need to reach a similar agreement with another chartered financial institution or obtain our own bank charter or lending licenses. We may be unable to reach a similar agreement with another partner on favorable terms or at all, and obtaining a bank charter or lending licenses would be a costly, time-consuming and uncertain process, subject us to additional laws and regulatory requirements, which could be burdensome, increase our costs and require us to change our business practices. In addition, as a service provider to these bank partners, which are federally supervised U.S. financial institutions, we are subject from time to time to examination by their federal banking regulators.

A case decided in the U.S. Court of Appeals for the Second Circuit, *Madden v. Midland Funding, LLC* (786 F.3d 246 (2d Cir. 2015)), resulted in some uncertainty as to whether non-bank entities purchasing loans originated by a bank may rely on federal



preemption of state usury laws, and may create an increased risk of litigation by plaintiffs challenging our ability to collect interest and fees in accordance with the terms of certain loans. Although the decision specifically addressed preemption under the National Bank Act, this decision could support future challenges to federal preemption for other institutions, including FDIC-insured, state chartered industrial banks like those that we rely on to issue our loan products in the U.S. After the *Madden* decision, there continue to be a number of U.S. state and federal court legal actions challenging the viability of business models where a non-bank entity relies on a third party chartered financial institution in connection with the issuance of credit products. While we believe the manner in which we offer our credit products can be distinguished from *Madden*, there can be no assurance as to the outcome of any potential litigation, which could materially and adversely impact our ability to issue our loan products in the U.S. and our business.

On November 16, 2017, we announced an arrangement under which Synchrony Bank will acquire the U.S. consumer credit receivables portfolio held by us and certain of our affiliates, which totaled approximately \$6.4 billion in receivables as of December 31, 2017. The purchase price is subject to a post-closing true-up and certain adjustments. The transaction is expected to be completed during the third quarter of 2018, subject to certain closing conditions. The transaction may not close within the expected timeframe or at all. Even if the transaction is consummated, it may take us longer than expected to realize the anticipated benefits of the transaction, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results. Under our expanded program agreement with Synchrony Bank, at the closing of the consumer credit receivables portfolio sale, Synchrony Bank will become the exclusive issuer of the PayPal Credit online consumer financing program in the U.S. for a 10-year term, and we retain an option to designate a purchaser of the portfolio at the end of that term. Our increased reliance on Synchrony will subject us to risks in the nature of those discussed in this “Risk Factors” section under the caption “We rely on third parties in many aspects of our business, which creates additional risk.”

#### Our credit products expose us to additional risks.

We offer our PayPal Credit consumer product and PayPal Working Capital and other business loan products to a wide range of consumers and merchants in various markets, and the financial success of these products depends on the effective management of related risk. The credit decisioning process for our PayPal Credit consumer product uses proprietary segmentation and credit algorithms and other analytical techniques designed to analyze the credit risk of specific consumers based on their past purchasing and payment history with PayPal as well as their credit scores. Similarly proprietary risk models and other indicators are applied to assess merchants who wish to use our business loan products to help predict their ability to repay. These risk models may not accurately predict the creditworthiness of a consumer or merchant due to factors such as inaccurate assumptions, including assumptions related to the particular consumer or merchant, market conditions, economic environment or limited transaction history or other data, among other factors. The accuracy of these risk models and the ability to manage credit risk related to our credit products may also be affected by legal or regulatory requirements, competitors’ actions, changes in consumer behavior, changes in the economic environment and other factors. Our international expansion of our credit product offerings also exposes us to additional risks, including those discussed below under the risk factor titled “Our international operations are subject to increased risks, which could harm our business.”

Like other businesses with significant exposure to losses from consumer and merchant credit, we face the risk that account holders will default on their payment obligations, creating the risk of potential charge-offs. The non-payment rate among account holders may increase due to, among other things, changes to underwriting standards, worsening economic conditions, such as a recession or government austerity programs, increases in prevailing interest rates, and high unemployment rates. Account holders who miss payments often fail to repay their loans, and account holders who file for protection under the bankruptcy laws generally do not repay their loans.

We currently purchase receivables related to our credit products in the U.S. If we are unable to fund our purchase of these receivables adequately or in a cost-effective manner, or if we are unable to efficiently manage the cash resources utilized for these purposes, our business could be harmed.

#### Our business may be impacted by political events, war, terrorism, public health issues, natural disasters and other business interruptions.

War, terrorism, geopolitical uncertainties, public health issues, natural disasters and other business interruptions have caused and could cause damage or disruption to the economy and commerce on a global or regional basis, which could have a material adverse effect on our business, our customers, and companies with which we do business. Our business operations are subject to interruption by, among others, natural disasters, fire, power shortages, earthquakes, floods, nuclear power plant accidents and other industrial accidents, terrorist attacks and other hostile acts, labor disputes, public health issues and other events beyond our control. Such events could decrease demand for our products and services or make it difficult or impossible for us to deliver products and services to our customers. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume or maintain operations, which could have a material adverse impact on our business, financial condition and results of operations.

#### Changes to our buyer and seller protection programs could increase our loss rate.

Our buyer and seller protection programs protect merchants and consumers from fraudulent transactions, and consumers if they do not receive the item ordered or if the item received is significantly different from its description. In 2015, we increased the scope

of our buyer protection program to cover digital goods and intangible goods and services. In addition, consumers who pay through PayPal may have reimbursement rights from their payment card issuer (usually a bank), which in turn will seek recovery from us. The risk of losses from our buyer and seller protection programs are specific to individual buyers, sellers and transactions, and may also be impacted by regional variations to these programs, modifications to these programs resulting from changes in regulatory requirements, or changes that we decide to implement, such as expanding the scope of transactions covered by one or more of these programs. Upon PayPal becoming an independent publicly traded company in July 2015, we extended our protection programs in several countries to cover certain customers' purchases on eBay, and our costs associated with these programs have therefore increased. Increases in our loss rate, including as a result of changing our buyer and seller protection programs, could harm our business.

#### [Our international operations are subject to increased risks, which could harm our business.](#)

Our international operations have generated approximately one-half of our net revenues in recent years. There are risks inherent in doing business internationally on both a domestic (i.e., in-country) and cross-border basis, including:

- foreign currency and cross-border trade risks discussed earlier in this "Risk Factors" section under the captions "We are exposed to fluctuations in foreign currency exchange rates" and "Any factors that reduce cross-border trade or make such trade more difficult could harm our business";
- risks related to other government regulation or required compliance with local laws;
- local licensing and reporting obligations (e.g., data localization requirements);
- expenses associated with localizing our products and services, including offering customers the ability to transact business in the local currency, and adapting our products and services to local preferences (e.g., payment methods) with which we may have limited or no experience;
- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, foreign currency exchange restrictions or extreme fluctuations in foreign currency exchange rates for a particular currency;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, public health issues, acts of war, and terrorism;
- import or export regulations;
- compliance with U.S. laws and foreign laws prohibiting corrupt payments to government officials, such as the Foreign Corrupt Practices Act and the U.K. Bribery Act, and other local anticorruption laws;
- compliance with U.S. and foreign laws designed to combat money laundering and the financing of terrorist activities;
- antitrust and competition regulations;
- potentially adverse tax developments and consequences;
- economic uncertainties relating to sovereign and other debt;
- national or regional differences in macroeconomic growth rates;
- different, uncertain, overlapping, or more stringent user protection, data protection, privacy, and other laws and regulations; and
- increased difficulties in collecting accounts receivable.

Violations of the complex foreign and U.S. laws, rules and regulations that apply to our international operations may result in fines, criminal actions, or sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies. These risks are inherent in our international operations and expansion, may increase our costs of doing business internationally, and could harm our business.

#### [We are exposed to fluctuations in interest rates.](#)

We are exposed to interest rate risk from our investment portfolio and from interest-rate sensitive assets underlying the customer balances we hold on our balance sheet as customer accounts. A low interest rate environment or reductions in interest rates may negatively impact our investment income and our net income. In addition, fluctuations in interest rates may adversely impact our customers' spending levels and ability and willingness to pay outstanding amounts owed to us. Higher interest rates often lead to higher payment obligations by customers to us and other lenders under mortgage, credit card and other consumer and merchant loans, which may reduce our customers' ability to remain current on their obligations to us and therefore lead to increased delinquencies, charge-offs and allowance for loan and interest receivable which could have an adverse effect on our net income.

We have entered into a revolving credit facility and a 364-day delayed-draw term loan credit facility. We have borrowed under these credit facilities from time to time, and any borrowings under these credit facilities bear interest at a floating rate, exposing us to interest rate fluctuations.



#### Use of our payments services for illegal purposes could harm our business.

Our payment system is susceptible to potentially illegal or improper uses, including money laundering, terrorist financing, illegal online gambling, fraudulent sales of goods or services, illegal sales of prescription medications or controlled substances, piracy of software, movies, music, and other copyrighted or trademarked goods (in particular, digital goods), bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages or tobacco products, online securities fraud, or to facilitate other illegal activity. Any use of our payment system for illegal or improper uses could subject us to claims, individual and class action lawsuits, and government and regulatory investigations, inquiries or requests that could result in liability and reputational harm for us. Moreover, certain activity that may be legal in one country may be illegal in another country, and a merchant may intentionally or inadvertently be found responsible for importing or exporting illegal goods, resulting in liability for us. Changes in law have increased the penalties for intermediaries providing payment services for certain illegal activities, and government authorities may consider additional payments-related proposals from time to time. Owners of intellectual property rights or government authorities may seek to bring legal action against providers of payments solutions, including PayPal, that are peripherally involved in the sale of infringing or allegedly infringing items. Any threatened or resulting claims could result in reputational harm, and any resulting liabilities, loss of transaction volume or increased costs could harm our business.

#### Our failure to manage our customer funds and the assets underlying our customer funds properly could harm our business.

We hold a substantial amount of funds belonging to our customers, including deposits in customer accounts and funds being remitted to sellers of goods and services. In certain jurisdictions where we operate, we are required to hold eligible liquid assets, as defined by the relevant regulators in each jurisdiction, equal to at least 100% of the aggregate amount of all customer balances. Our ability to manage and account accurately for the assets underlying our customer funds and comply with applicable liquid asset requirements requires a high level of internal controls. As our business continues to grow and we expand our product offerings, we must continue to strengthen our associated internal controls. PayPal (Europe), with the permission of the CSSF, utilizes certain European customer balances held by our Luxembourg banking subsidiary to fund credit balances relating to our customers. Our success requires significant public confidence in our ability to properly manage our customers' balances and handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain the necessary controls or to manage our customer funds and the assets underlying our customer funds accurately and in compliance with applicable regulatory requirements could result in reputational harm, lead customers to discontinue or reduce their use of our products and result in significant penalties and fines, which could materially harm our business.

#### We are subject to regulatory activity and antitrust litigation under competition laws.

We are subject to scrutiny by various government agencies under U.S. and foreign laws and regulations, including antitrust and competition laws. An increasing number of jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies and government agencies have in the past and may in the future allege that our actions violate the antitrust or competition laws of the U.S., individual states, other countries, or the European Commission, or otherwise constitute unfair competition. An increasing number of governments are regulating and increasing their scrutiny of competition law activities. Our business agreements or arrangements with customers or other companies could give rise to regulatory action or antitrust litigation. Some regulators, particularly those outside of the U.S., may perceive that our products and services are used so broadly that otherwise uncontroversial business practices could be deemed anticompetitive. Any claims or investigations, even if without merit, may be very expensive to defend or respond to, involve negative publicity and substantial diversion of management time and effort, and could result in reputational harm, significant judgments against us, or require us to change our business practices.

#### We are subject to patent litigation.

We have repeatedly been sued for allegedly infringing other parties' patents. At any given time, we are typically a defendant in a number of patent lawsuits and have been notified of several other potential patent disputes. We expect that we will continue to be subject to patent infringement claims because, among other reasons:

- our products and services continue to expand in scope and complexity;
- we continue to expand into new business areas, including through acquisitions; and
- the number of patent owners who may claim that we, any of the companies that we have acquired, or our customers infringe their patents, and the aggregate number of patents controlled by such patent owners, continues to increase.

Such claims may be brought directly against us or against our customers whom we may indemnify because we are contractually obligated to do so or we choose to do so as a business matter. We believe that many of the claims against us and other technology companies have been, and continue to be, initiated by third parties whose sole or primary business is to assert such claims. In addition, we have seen significant patent disputes between operating companies in some technology industries. Patent claims, whether meritorious or not, are time-consuming and costly to defend and resolve, and could require us to make expensive changes in our methods of doing business, enter into costly royalty or licensing agreements, make substantial payments to satisfy adverse judgments or settle claims or proceedings, or cease conducting certain operations, which would harm our business.

We may be unable to adequately protect or enforce our intellectual property rights, or third parties may allege that we are infringing their intellectual property rights.

The protection of our intellectual property, including our trademarks, patents, copyrights, domain names, trade dress, and trade secrets, is important to the success of our business. We seek to protect our intellectual property rights by relying on applicable laws and regulations in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights when offering or procuring products and services, including confidentiality and invention assignment agreements entered into with our employees and contractors and confidentiality agreements with parties with whom we conduct business.

Effective intellectual property protection may not be available in every country in which we offer our products and services. We may be required to expend significant time and expense in order to prevent infringement or to enforce our rights.

Although we have generally taken measures to protect our intellectual property rights, there can be no assurance that we will be successful in protecting or enforcing our rights in every jurisdiction, or that contractual arrangements and other steps that we have taken to protect our intellectual property will prevent third parties from infringing or misappropriating our intellectual property or deter independent development of equivalent or superior intellectual property rights by others. If we are unable to prevent third parties from adopting, registering or using trademarks and trade dress that infringe, dilute or otherwise violate our trademark rights, the value of our brands could be diminished and our business could be adversely affected. Also, we may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. Any failure to adequately protect or enforce our intellectual property rights, or significant costs incurred in doing so, could diminish the value of our intangible assets and materially harm our business.

As the number of products in the technology and payments industries increases and the functionality of these products further overlaps, and as we acquire technology through acquisitions or licenses, we may become increasingly subject to intellectual property infringement and other claims. Litigation may be necessary to determine the validity and scope of the patent and other intellectual property rights of others. The ultimate outcome of any allegation is often uncertain and, regardless of the outcome, any such claim, with or without merit, may be time-consuming, result in costly litigation, divert management's time and attention from our business, and require us to, among other things, redesign or stop providing our products or services, pay substantial amounts to satisfy judgments or settle claims or lawsuits, pay substantial royalty or licensing fees, or satisfy indemnification obligations that we have with certain parties with whom we have commercial relationships. Our failure to obtain necessary license or other rights, or litigation or claims arising out of intellectual property matters, may harm our business.

**We are regularly subject to general litigation, regulatory disputes, and government inquiries.**

We are regularly subject to claims, individual and class action lawsuits, government and regulatory investigations, inquiries or requests, and other proceedings alleging violations of laws, rules and regulations with respect to competition, antitrust, intellectual property, privacy, data protection, information security, anti-money laundering, counter-terrorist financing, sanctions, anti-corruption, consumer protection, fraud, accessibility, securities, tax, labor and employment, commercial disputes, services, charitable fundraising, contract disputes, escheatment of unclaimed or abandoned property, and other matters. In particular, our business faces ongoing consumer protection and intellectual property litigation, as discussed above. The number and significance of these disputes and inquiries have increased as our business has expanded in scale, scope and geographic reach, and our products and services have increased in complexity. In addition, the laws, rules and regulations affecting our business, including those pertaining to Internet and mobile commerce, payments services, and credit, are subject to ongoing interpretation by the courts and governmental authorities, and the resulting uncertainty in the scope and application of these laws, rules and regulations increases the risk that we will be subject to private claims and governmental actions alleging violations.

The scope, outcome and impact of claims, lawsuits, government investigations, and proceedings to which we are subject cannot be predicted with certainty. Regardless of the outcome, such investigations and proceedings can have an adverse impact on us because of legal costs, diversion of management resources, reputational damage, and other factors. Determining reserves for our pending litigation and regulatory proceedings is a complex, fact-intensive process that involves a high degree of judgment. Resolving one or more such legal and regulatory proceedings could potentially require us to make substantial payments to satisfy judgments, fines or penalties or to settle claims or proceedings, any of which could materially and adversely affect our business. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders that prevent us from offering certain products or services, require us to change our business practices in costly ways or develop non-infringing or otherwise altered products or technologies. Any of these consequences could materially and adversely affect our business, results of operations and financial condition.

While certain of our customer agreements contain arbitration provisions with class action waiver provisions that may limit our exposure to consumer class action litigation, there can be no assurance that we will be successful in enforcing these arbitration provisions, including the class action waiver provisions, in the future or in any given case. Legislative, administrative or regulatory developments may directly or indirectly prohibit or limit the use of pre-dispute arbitration clauses and class action waiver

provisions. Any such prohibitions or limitations on or discontinuation of the use of, such arbitration or class action waiver provisions could subject us to additional lawsuits, including additional consumer class action litigation, and significantly limit our ability to avoid exposure from consumer class action litigation.

#### Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations and financial conditions.

On December 22, 2017, the U.S. government enacted comprehensive Federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The Tax Act makes changes to the corporate tax rate, business-related deductions and taxation of foreign earnings, among others, that will generally be effective for taxable years beginning after December 31, 2017. These changes could have a material adverse impact on the value of our U.S. deferred tax assets, result in significant one-time charges in the current or future taxable years and increase our future U.S. tax expense. We are continuing to evaluate the Tax Act and its requirements, as well as its application to our business and its impact on our effective tax rate. At this stage, it is unclear how many U.S. states will incorporate these federal law changes, or portions thereof, into their tax codes. The implementation by us of new practices and processes designed to comply with, and benefit from, the Tax Act and its rules and regulations could require us to make substantial changes to our business practices, allocate additional resources, and increase our costs, which could negatively affect our business, results of operations and financial condition.

#### We may have exposure to greater than anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign tax jurisdictions. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing a number of investigations, audits and reviews by taxing authorities throughout the world. Any adverse outcome of any such audit or review could have a negative effect on our business, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient.

In addition, our future income taxes could be adversely affected by earnings being lower than anticipated, or by the incurrence of losses, in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, as a result of gains on our foreign exchange risk management program, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

Various levels of government, such as U.S. federal and state legislatures, and international organizations, such as the Organization for Economic Co-operation and Development ("OECD") and the EU, are increasingly focused on tax reform and other legislative or regulatory action to increase tax revenue. Any such tax reform or other legislative or regulatory actions could increase our effective tax rate.

#### We and our merchants may be subject to sales reporting and record-keeping obligations.

A number of U.S. states, the U.S. federal government and foreign countries have implemented or are in the process of implementing reporting or record-keeping obligations on companies that engage in or facilitate ecommerce to improve tax compliance. Additionally, a number of jurisdictions are reviewing whether payment service providers and other intermediaries could be deemed to be the legal agent of merchants for certain tax purposes. We have modified our systems to meet known requirements and expect further modifications will be required to comply with future requirements, which may negatively impact our customer experience and increase operational costs. Any failure by us to comply with these and similar reporting and record-keeping obligations could result in substantial monetary penalties and other sanctions, adversely impact our ability to do business in certain jurisdictions, and harm our business.

#### Acquisitions, joint ventures, strategic investments, and other strategic transactions could result in operating difficulties and could harm our business.

Acquisitions, joint ventures, strategic investments, and other strategic transactions are important elements of our overall corporate strategy. We expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions, and dispositions of certain businesses, technologies, services, products, and other assets, as well as joint ventures, strategic investments, and commercial and strategic partnerships. These transactions may involve significant challenges and risks, including:

- the potential loss of key customers, vendors and other key business partners of the companies we acquire, or dispose of, following and continuing after announcement of our transaction plans;
- difficulty making strategic hires of new employees, declining employee morale and retention issues affecting employees (particularly the potential loss of key personnel) of companies that we acquire or dispose of, which may result from changes in compensation, management, reporting relationships, future prospects, or the direction of the acquired or disposed business;
- diversion of management time and focus;

- the need to and difficulty of integrating the operations, systems (including accounting, compliance, management, information, human resource and other administrative systems), technologies, products and personnel of each acquired company, which is an inherently risky and potentially lengthy and costly process;
- the need to and difficulty of implementing and/or enhancing controls, procedures and policies appropriate for a larger public company at acquired companies which, prior to the acquisition, may have lacked such controls, procedures and policies or whose controls, procedures and policies did not meet applicable legal and regulatory standards;
- the inefficiencies and lack of control that may result if integration of acquired companies is delayed or not implemented, and unforeseen difficulties and costs that may arise as a result;
- potential exposure to new or increased regulatory oversight and regulatory obligations associated with new products and services or entry into new markets;
- risks associated with our expansion into new international markets;
- risks associated with the complexity of entering into and effectively managing joint ventures, strategic investments, and other strategic partnerships;
- risks associated with undetected cyberattacks or security breaches at companies that we acquire or with which we may combine or partner;
- lawsuits or regulatory actions resulting from the transaction;
- liability for activities or conduct of the acquired company before the acquisition, including legal and regulatory claims or disputes, violations of laws and regulations, commercial disputes, tax liabilities and other known and unknown liabilities;
- the acquisition of new customer and employee personal information, which in and of itself may require regulatory approval and or additional controls, policies and procedures and subject us to additional exposure and additional complexity and costs of compliance; and
- our dependence on the accounting, financial reporting, operating metrics and similar systems, controls and processes of acquired businesses and the risk that errors or irregularities in those systems, controls and processes will lead to errors in our financial statements or make it more difficult to manage the acquired business.

At any given time, we may be engaged in discussions or negotiations with respect to one or more of these or other types of transactions, any of which could, individually or in the aggregate, be material to our financial condition and results of operations. There can be no assurance that we will be successful in identifying, negotiating, and consummating favorable transaction opportunities. It may take us longer than expected to fully realize the anticipated benefits of these transactions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results. Any acquisitions or dispositions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), recognize liabilities, and record amortization expenses related to intangible assets or write-offs of goodwill or intangibles, which could dilute the economic and voting rights of our stockholders and adversely affect our results of operations and the interests of holders of our indebtedness, as applicable.

Joint ventures and minority investment inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational and/or compliance risks associated with the joint venture or minority investment. In addition, we may be dependent on joint venture partners, controlling shareholders, management or other persons or entities who control them and who may have business interests, strategies or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partners, controlling shareholders, management or other persons or entities who control them and who may adversely affect the value of our investment, result in litigation or regulatory action against us and otherwise damage our reputation and brand.

#### There are risks associated with our indebtedness.

We have incurred indebtedness, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this “Risk Factors” section. There can be no assurance that we will be able to manage any of these risks successfully. In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities and increase the interest amounts we pay on outstanding or future debt. These risks could adversely affect our financial condition and results of operations.

#### We rely on third parties in many aspects of our business, which creates additional risk.

We rely on third parties in many aspects of our business, including the following:

- networks, banks, payment processors, and payment gateways that link us to the payment card and bank clearing networks to process transactions;
- unaffiliated third-party lenders to originate loans in the U.S. for our PayPal Credit consumer product. PayPal Working Capital and other business loan products;
- third parties that provide loan servicing and customer statements processing;
- third parties that provide certain outsourced customer support and product development functions, which are critical to our operations; and
- third parties that provide facilities, infrastructure, components and services, including data center facilities and cloud computing.

Because we rely on third parties to provide services to us and our customers and to facilitate certain of our business activities, we face increased operational risk. These third parties may be subject to financial, legal, regulatory, labor or other issues, such as service terminations, disruptions or interruptions, that prevent them from providing services to us or our customers. Moreover, these third parties are themselves subject to the risks discussed earlier in the “Risk Factors” section under the caption “Our business is subject to cyberattacks and security and privacy breaches.” In addition, these third parties may breach their agreements with us, disagree with our interpretation of contract terms or applicable laws and regulations, refuse to continue or renew these agreements on commercially reasonable terms or at all, fail or refuse to process transactions adequately, take actions that degrade the functionality of our services, impose additional costs or requirements on us, or give preferential treatment to competitive services. There can be no assurance that third parties who provide services directly to us or our customers will continue to do so on acceptable terms, or at all. If any third parties were to stop providing services to us or our customers on acceptable terms, we may be unable to procure alternatives from other third parties in a timely and efficient manner, and on acceptable terms or at all. If third parties we rely on do not adequately or appropriately provide their services or perform their responsibilities, we may be subject to business disruptions, losses or costs to remediate any of the deficiencies, customer dissatisfaction, reputational damage, legal or regulatory proceedings, or other adverse consequences which could harm our business.

#### [Our developer platforms, which are open to merchants and third-party developers, subject us to additional risks.](#)

We provide third-party developers with access to application programming interfaces, software development kits and other tools designed to allow them to produce applications for use, with a particular focus on mobile applications. There can be no assurance that merchants or third-party developers will develop and maintain applications and services on our open platforms on a timely basis or at all, and a number of factors could cause such third-party developers to curtail or stop development for our platforms. In addition, our business is subject to many regulatory restrictions. It is possible that merchants and third-party developers who utilize our development platforms or tools could violate these regulatory restrictions and we may be held responsible for such violations, which could harm our business.

#### [Our retail point of sale solutions expose us to additional risks.](#)

We have announced several retail point of sale solutions, which enable merchants to accept payments using a payments card reader attached to, or otherwise communicating with, a mobile device or to scan payment cards and codes using the mobile device’s embedded camera, and which enable consumers to use their mobile devices to pay at the point of sale. We have entered into strategic partnerships with major payment card networks to further expand our relationship in a way that will make it easier for merchants to accept and consumers to choose to pay for transactions utilizing these companies’ credit and debit cards. Those agreements provide us with access to each of these partner’s tokenization services in the U.S. for in-store point-of-sale PayPal transactions, which we expect will increase the number of point of sale transactions that we process. As we continue to expand our product and service offerings at the retail point of sale, we will face additional risks, including:

- increased expectations from offline retailers regarding the reliability and availability of our systems and services and correspondingly lower amounts of downtime, which we may not be able to meet;
- significant competition at the retail point of sale, particularly from established payment card providers, many of which have substantially greater resources than we do;
- increased targeting by fraudsters; given that our fraud models are less developed in this area, we may experience increases in fraud and associated transaction losses as we adjust to fraudulent activity at the point of sale;
- exposure to product liability claims to the extent that hardware devices that we produce for use at the retail point of sale malfunction or are not in compliance with laws, which could result in substantial liability and require product recalls or other actions;
- exposure to additional laws, rules and regulations;
- increased reliance on third parties involved with processing in-store payments, including independent software providers, electronic point of sale providers, hardware providers (such as cash register and pin-pad providers), payment processors and banks that enable in-store transactions; and
- lower operating income than our other payment solutions.

Unless we are able to successfully manage these risks, including driving adoption of, and significant volume through, our retail point of sale solutions over time, our business may be harmed.

#### [Our success largely depends on key personnel. Because competition for our key employees is intense, we may not be able to attract, retain, and develop the highly skilled employees we need to support our business. The loss of key personnel could harm our business.](#)

Our future performance depends substantially on the continued services of key personnel, including our executive team and other highly skilled employees, and our ability to attract, retain, and motivate such personnel. Competition for key personnel is intense, especially in the San Francisco Bay Area, where our corporate headquarters are located and where the cost of living is high, and we may be unable to successfully attract, integrate, or retain sufficiently qualified key personnel. In making employment decisions, particularly in the technology and payments industries, job candidates often consider the value of the equity awards they would receive in connection with their employment, and fluctuations in our stock price, or a perception that the market price of our



stock may not increase or may increase more slowly than stock prices at other technology or payments companies, may make it more difficult to attract, retain, and motivate employees. We may be limited in our ability to recruit internationally by restrictive domestic immigration laws or policies. In addition, we do not have long-term employment agreements with any of our key personnel and do not maintain any “key person” life insurance policies. The loss of the services of any of our key personnel, or our inability to attract highly qualified key personnel, could harm our business.

**We are subject to risks associated with information disseminated through our products and services.**

Companies providing online services may be subject to claims relating to information disseminated through them, including claims alleging defamation, libel, harassment, hate speech, breach of contract, invasion of privacy, negligence, copyright or trademark infringement, among other things. The laws relating to the liability of companies providing online services for information disseminated through their services are subject to frequent challenges. We are also subject to potential liability to third parties for the customer-provided content on our products and services, particularly in jurisdictions outside the U.S. where the applicable laws are unsettled. If we become liable for information provided by our customers and carried on our products and services, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability, including expending substantial resources or discontinuing certain product or service offerings, which could harm our business.

**RISKS RELATED TO THE SEPARATION FROM EBAY**

If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Internal Revenue Code (the “Code”), eBay, PayPal and eBay stockholders could be subject to significant tax liabilities and, in certain circumstances, we could be required to indemnify eBay for material taxes pursuant to indemnification obligations under the tax matters agreement.

On July 17, 2015, we became an independent publicly traded company through the pro rata distribution by eBay Inc. of 100% of our outstanding common stock to eBay’s stockholders (which we sometimes refer to as the “separation” or the “distribution”). eBay received an opinion from its outside legal counsel regarding the qualification of the distribution, together with certain related transactions, as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code. The opinion was based on and relied on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings of eBay and of us, including those relating to the past and future conduct of eBay and of us. If any of these representations, statements or undertakings were, or became, inaccurate or incomplete, or if eBay or we breach any of our respective covenants in the separation documents, the opinion of counsel may be invalid and the conclusions reached therein could be jeopardized.

Notwithstanding the opinion of counsel, the IRS could determine that the distribution, together with certain related transactions, should be treated as a taxable transaction if the IRS determines that any of these representations, assumptions, or undertakings upon which such opinion was based are incorrect or have been violated or if the IRS disagrees with the conclusions in the opinion of counsel. An opinion of counsel is not binding on the IRS or any court and there can be no assurance that the IRS will not challenge the conclusions reached in the opinion. The IRS did not provide any opinion in advance of the separation that our proposed transaction is tax-free.

If the distribution, together with certain related transactions, failed to qualify as a transaction that is generally tax-free under Sections 368(a)(1)(D) and 355 of the Code, in general, eBay would recognize taxable gain as if it had sold the PayPal common stock in a taxable sale for its fair market value, eBay stockholders who received PayPal common stock in the distribution may be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares and we could incur significant liabilities.

**There are risks associated with certain agreements that we entered into with eBay at the separation.**

In connection with the separation, we entered into a separation and distribution agreement with eBay as well as various other agreements, including an operating agreement, a tax matters agreement, an employee matters agreement, an intellectual property matters agreement, a data sharing addendum, and a product development agreement. The separation agreement, the tax matters agreement, the employee matters agreement, and the intellectual property matters agreement determine the allocation of assets and liabilities (including by means of licensing) between the companies following the separation for those respective areas and include associated indemnification obligations. The operating agreement, the data sharing addendum and the product development agreement establish certain commercial relationships between eBay and us related to payment processing, credit and data sharing. If we or eBay is unable to satisfy its performance, payment or indemnification obligations under these agreements, we could incur operational difficulties or losses or be required to make substantial indemnification or other payments to eBay.

Our relationship with eBay is governed in part by an operating agreement entered into at separation with a term of five years. This operating agreement defines a number of important elements of our commercial relationship with eBay, as well as certain obligations and limitations that limit PayPal’s provision of services to certain competitive platform operators of eBay (as specified in the operating agreement). eBay remains a significant source of our revenues and operating income. If our operating agreement with eBay expires or is terminated prior to its expiration, or if there is a significant change in our relationship with eBay, including if eBay becomes a merchant of record, eliminates or modifies any of its risk management or customer protection programs, directs

transactions to a different provider of payment services or offers eBay customers alternative payment options, it could lead to customer dissatisfaction, reputational damage, and other adverse consequences, and our business, financial condition and results of operations could be materially harmed.

## RISKS RELATED TO OUR COMMON STOCK

*The price of our common stock has fluctuated and may continue to fluctuate significantly.*

The price of our common stock has fluctuated and may continue to fluctuate significantly due to a number of factors, some of which may be beyond our control, including, but not limited to:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by us or securities analysts and recommendations by securities analysts;
- changes in our capital structure;
- speculation, coverage or sentiment in the media or the investment community;
- the operating and stock price performance of comparable companies;
- changes to the regulatory and legal environment under which we operate; and
- market conditions or trends in the payments industry, the industries of merchants and the domestic and worldwide economy as a whole.

*Our amended and restated certificate of incorporation designates the state courts of the State of Delaware, or, if no state court located in the State of Delaware has jurisdiction, the federal court for the District of Delaware, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could discourage lawsuits against us and our directors and officers.*

Our amended and restated certificate of incorporation provides that unless the corporation otherwise determines, the state courts of the State of Delaware, or, if no state court located in the State of Delaware has jurisdiction, the federal court for the District of Delaware, will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors or officers to us or our stockholders, any action asserting a claim against us or any of our directors or officers arising pursuant to any provision of the Delaware General Corporation Law ("DGCL") or our amended and restated certificate of incorporation or bylaws, or any action asserting a claim against us or any of our directors or officers governed by the internal affairs doctrine. This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors or officers, which may discourage such lawsuits against us and our directors and officers. Alternatively, if a court outside of Delaware were to find this exclusive forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, we could incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

*Certain provisions in our amended and restated certificate of incorporation and bylaws may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.*

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of deterring coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the bidder and by encouraging prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the fact that directors may not be elected, removed or replaced at stockholder-requested special meetings unless a person, entity or group owns at least a majority of our outstanding common stock;
- the right of our board to issue preferred stock and to determine the voting, dividend and other rights of preferred stock without stockholder approval;
- the ability of our directors, and not stockholders, to fill vacancies on our board of directors in most circumstances and to determine the size of our board of directors;
- the prohibition on stockholders acting by written consent; and
- the absence of cumulative rights in the election of directors.

We have also elected not to be governed by Section 203 of the DGCL, which provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or its affiliates becomes the holder of more than 15% of the corporation's outstanding voting stock. Our amended and restated certificate of incorporation, however, contains a provision that generally mirrors Section 203 of the DGCL, except that it provides for a 20% threshold instead of the 15% provided for by the DGCL. These provisions could delay or prevent a change of control that our stockholders may favor.

These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and may delay or prevent an acquisition that our board of directors determines is



not in the best interests of us and our stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We own and lease various properties in the U.S. and other countries around the world. We use the properties for executive and administrative offices, data centers, product development offices and customer service offices. As of December 31, 2017, our owned and leased properties provided us with aggregate square footage as follows:

	United States	Other Countries	Total
	(In millions)		
Owned facilities	1.2	—	1.2
Leased facilities	1.1	1.6	2.7
Total facilities	2.3	1.6	3.9

We own a total of 22 acres of land in the U.S. Our corporate headquarters are located in San Jose, California and occupy approximately 0.7 million of owned square feet.

## Item 3. Legal Proceedings

The information set forth under “Note 13—Commitments and Contingencies—Litigation and Regulatory Matters” to the consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K is incorporated herein by reference.

## Item 4. Mine Safety Disclosures

Not applicable.

## Part II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### PRICE RANGE OF COMMON STOCK

PayPal common stock is quoted on the NASDAQ Stock Market under the ticker symbol "PYPL." The following table sets forth the range of high and low per share market prices as reported for each period indicated:

	2017		2016	
	High	Low	High	Low
First Quarter	\$43.80	\$39.02	\$41.75	\$30.52
Second Quarter	\$55.14	\$42.06	\$41.49	\$34.00
Third Quarter	\$65.24	\$52.83	\$41.30	\$35.72
Fourth Quarter	\$79.39	\$63.69	\$44.52	\$38.06

As of February 2, 2018, there were approximately 3,905 holders of record of our common stock. The actual number of stockholders is significantly greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

#### DIVIDEND POLICY

We have never paid any cash dividends and we currently do not anticipate paying any cash dividends in the foreseeable future.

#### STOCK REPURCHASE ACTIVITY

We did not repurchase any shares of our common stock in 2015. In January 2016, our Board of Directors authorized a stock repurchase program that provided for the repurchase of up to \$2 billion of our common stock, with no expiration from the date of authorization. In April 2017, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to \$5 billion of our common stock, with no expiration from the date of authorization. This program became effective upon completion of the January 2016 stock repurchase program. The stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, may also be used to make opportunistic repurchases of our common stock to reduce outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives. However, any stock repurchases are subject to market conditions and other uncertainties and we cannot predict if or when any stock repurchases will be made. Moreover, we may terminate our stock repurchase programs at any time without notice.

The stock repurchase activity under our stock repurchase programs during the three months ended December 31, 2017 is summarized as follows:

	Shares Repurchased	Average Price Paid per Share <sup>(1)</sup>	Value of Shares Repurchased	Remaining Amount Authorized for Repurchases
(In millions, except per share amounts)				
Period ended October 31, 2017	—	—	—	\$5,299
Period ended November 30, 2017	—	—	—	\$5,299
Period ended December 31, 2017	4.0	\$74.30	\$300	\$4,999
	4.0		\$300	

<sup>(1)</sup> Average price paid per share includes broker commissions.

These repurchased shares of common stock were recorded as treasury stock and were accounted for under the cost method. No repurchased shares of common stock have been retired.

## Item 6. Selected Financial Data

The following selected financial data reflect the consolidated operations of PayPal. PayPal derived the selected consolidated income statement data for the years ended December 31, 2017, 2016 and 2015 and the selected consolidated balance sheet data as of December 31, 2017 and 2016 as set forth below, from its audited consolidated financial statements, which are included in “Item 15. Exhibits, Financial Statement Schedules” of this Annual Report on Form 10-K. PayPal derived the selected consolidated income statement data for the years ended December 31, 2014 and 2013 and selected consolidated balance sheet data as of December 31, 2015 and 2014 from audited consolidated financial statements not included in this Annual Report on Form 10-K. PayPal derived the selected consolidated balance sheet data as of December 31, 2013 from PayPal’s underlying financial records, which were derived from the financial records of eBay. The historical results do not necessarily indicate the results expected for any future period. To ensure a full understanding, you should read the selected consolidated financial data presented below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and accompanying notes included elsewhere in this report.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(In millions, except per share amounts)				
Consolidated Statement of Income Data:					
Net revenues	\$ 13,094	\$ 10,842	\$ 9,248	\$ 8,025	\$ 6,727
Operating income	2,127	1,586	1,461	1,268	1,091
Net income	1,795	1,401	1,228	419	955
Net income per share:					
Basic	\$ 1.49	\$ 1.16	\$ 1.00	\$ 0.34	\$ 0.78
Diluted	\$ 1.47	\$ 1.15	\$ 1.00	\$ 0.34	\$ 0.78
Weighted average shares <sup>(1)(2)</sup> :					
Basic	1,203	1,210	1,222	1,218	1,218
Diluted	1,221	1,218	1,229	1,224	1,224
Consolidated Balance Sheet Data:					
Total assets	\$40,774	\$33,103	\$28,881	\$21,917	\$19,160
Total long-term liabilities	1,917	1,513	1,505	386	509

<sup>(1)</sup> On July 17, 2015, the distribution date, eBay stockholders of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held as of the record date. Basic and diluted net income per share for the years ended December 31, 2014, and 2013 were calculated using the number of common shares distributed on July 17, 2015.

<sup>(2)</sup> The weighted average number of common shares outstanding for basic and diluted earnings per share for the year ended December 31, 2015 was based on the number of common shares distributed on July 17, 2015 for the period prior to distribution and the weighted average number of common shares outstanding for the period beginning after the distribution date.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). These forward-looking statements can be identified by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results and financial condition to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Item 1A. Risk Factors" of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the SEC. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should read the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" in conjunction with the audited consolidated financial statements and the related notes that appear elsewhere in this report.

### SEPARATION FROM EBAY INC.

On September 30, 2014, eBay Inc. ("eBay") announced its intent to separate its payments business into an independent, publicly traded company. To accomplish this separation, in January 2015, eBay incorporated PayPal Holdings, Inc. ("PayPal Holdings") which is now the parent of PayPal, Inc. and holds directly or indirectly all of the assets and liabilities associated with PayPal, Inc. In June 2015, the board of directors of eBay approved the separation (the "separation") of eBay's payments business through the distribution (the "distribution") of 100% of the outstanding common stock of PayPal Holdings to eBay's stockholders. PayPal Holdings' registration statement on Form 10, as amended, was declared effective by the U.S. Securities and Exchange Commission on June 29, 2015. On July 17, 2015 (the "distribution date"), PayPal Holdings became an independent publicly traded company through the pro rata distribution by eBay of 100% of the outstanding common stock of PayPal Holdings to eBay stockholders. Each eBay stockholder of record as of the close of business on July 8, 2015 received one share of PayPal Holdings common stock for every share of eBay common stock held on the record date. Approximately 1.2 billion shares of PayPal Holdings common stock were distributed on July 17, 2015 to eBay stockholders. PayPal Holdings' common stock began "regular way" trading under the ticker symbol "PYPL" on the NASDAQ Stock Market on July 20, 2015.

Prior to the separation, eBay transferred substantially all of the assets and liabilities and operations of eBay's payments business to PayPal Holdings, which was completed in June 2015 (the "capitalization"). The consolidated financial statements prior to the capitalization were prepared on a stand-alone basis and were derived from eBay's consolidated financial statements and accounting records. The consolidated financial statements reflect our financial position, results of operations, comprehensive income and cash flows as our business was operated as part of eBay prior to the capitalization. Following the capitalization, our consolidated financial statements include the accounts of PayPal Holdings and its wholly-owned subsidiaries. The consolidated financial position, results of operations and cash flows as of dates and for periods prior to the separation may not be indicative of what our financial position, results of operations and cash flows would have been as a separate stand-alone entity during the periods presented, nor are they indicative of what our financial position, results of operations and cash flows may be in the future. For additional information, see "Note 1—Overview and Summary of Significant Accounting Policies" to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company" and "PayPal" refer to PayPal Holdings and its consolidated subsidiaries or, in the case of information as of dates or for periods prior to the separation, the consolidated entities of the payments business of eBay, including PayPal, Inc. and certain other assets and liabilities that had been historically held at the eBay corporate level but were specifically identifiable and attributable to the payments business.

### BUSINESS ENVIRONMENT

We are a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide. Our vision is to democratize financial services, as we believe that managing and moving money is a right for all people, not just the affluent. Our goal is to increase our relevance for consumers and merchants to manage and move their money anywhere in the world, anytime, on any platform and using any device. Our combined payment solutions, including our PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products, compose our proprietary Payments Platform.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. That focus continues to become even more heightened as regulators on a global basis focus on such important issues as countering terrorist financing, anti-money laundering, privacy and consumer protection. Some of the laws and regulations to which we are subject were enacted recently, and the laws and regulations applicable to us, including those enacted prior to the advent of digital and mobile payments, are continuing to evolve through legislative and regulatory action and judicial

interpretation. Non-compliance with laws and regulations, increased penalties and enforcement actions related to non-compliance, changes in laws and regulations or their interpretation, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business, results of operations and financial condition. Therefore, we monitor these areas closely to ensure compliant solutions for our customers who depend on us.

The United Kingdom ("U.K.") held a referendum in June 2016 in which a majority of voters approved an exit from the European Union ("EU") ("Brexit"). In March 2017, the U.K. government gave formal notice of its intention to leave the EU and started the process of negotiating the future terms of the U.K.'s relationship with the EU. Brexit could adversely affect U.K., regional (including European) and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro.

We have foreign exchange exposure management programs designed to help reduce the impact from foreign currency rate movements. In 2017, 2016 and 2015, net revenues generated from our U.K. operations constituted 11%, 12% and 13%, respectively, of total net revenues. In 2017, 2016 and 2015, net revenues generated from the EU (excluding the U.K.) constituted approximately 20% of total net revenues. For additional information on how Brexit could affect our business, see "Item 1A. Risk Factors" under the caption—"The United Kingdom's departure from the EU could adversely affect us."

Information security risks for global payments and technology companies have significantly increased in recent years. Although we are not aware of any material impacts relating to cyberattacks or other information security breaches on our Payments Platform, we are not immune to these risks and there can be no assurance that we will not suffer such losses in the future. See "Item 1A. Risk Factors" under the caption—"Our business is subject to cyberattacks and security and privacy breaches."

## OVERVIEW OF RESULTS OF OPERATIONS

The following table provides a summary of our consolidated operating results for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,			Percent Increase/(Decrease)	
	2017	2016	2015	2017	2016
(In millions, except percentages and per share amounts)					
Net revenues	\$13,094	\$10,842	\$9,248	21%	17%
Operating expenses	10,967	9,256	7,787	18%	19%
Operating income	2,127	1,586	1,461	34%	9%
Operating margin	16%	15%	16%	**	**
Income tax expense	405	230	260	76%	(12)%
Effective tax rate	18%	14%	17%	**	**
Net income	\$ 1,795	\$ 1,401	\$ 1,228	28%	14%
Net income per diluted share <sup>(1)(2)</sup>	\$ 1.47	\$ 1.15	\$ 1.00	28%	15%
Net cash provided by operating activities	\$ 2,531	\$ 3,158	\$2,546	(20)%	24%

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

<sup>(1)</sup> On July 17, 2015, the distribution date, eBay stockholders of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held as of the record date.

<sup>(2)</sup> The weighted average number of common shares outstanding for diluted earnings per share for the year ended December 31, 2015 was based on the number of common shares distributed on July 17, 2015 for the period prior to distribution and the weighted average number of common shares outstanding for the period beginning after the distribution date.

\*\* Not Meaningful

Net revenues increased \$2.3 billion, or 21%, in 2017 and \$1.6 billion, or 17%, in 2016. The increases were primarily driven by growth in TPV (as defined below under "Net Revenues") of 27% in 2017 and 26% in 2016. Net revenues from our recent acquisitions of TIO and Swift were not material. Net revenues from Xoom (acquired in November 2015) contributed two percentage points to the 2016 growth rate.

Total operating expenses increased \$1.7 billion, or 18%, in 2017 and \$1.5 billion or 19% in 2016. The increase in 2017 was due primarily to an increase in transaction expense, sales and marketing, general and administrative, product development, and restructuring and other charges. Operating expenses related to TIO and Swift collectively contributed one percentage point to the 2017 growth rate. The increase in total operating expense in 2016 was due primarily to an increase in transaction expense and transaction and loan losses which increase with TPV and higher customer support and operations, general and administrative expenses, and depreciation and amortization incurred to operate as an independent public company, partially offset by a decrease in restructuring expense. Xoom operating expenses contributed three percentage points to the 2016 growth rate.

Operating income increased \$541 million, or 34%, in 2017 and \$125 million, or 9% in 2016. Operating income increased in 2017 and 2016 due primarily to the increase in net revenues, partially offset by the growth in operating expenses. TIO and Swift collectively had a negative impact our 2017 growth rate of four percentage points. Xoom negatively impacted our 2016 growth rate by four percentage points. Our operating margin was 16%, 15% and 16% in 2017, 2016 and 2015, respectively. Operating margin in 2017 was negatively impacted by growth in our transaction expense which increased 32% in 2017 compared to 2016, compared to net revenues which increased 21% in the same period, as well as restructuring expense of \$40 million incurred in 2017. These impacts were offset by operating efficiencies in our business, and a one time benefit of \$322 million pertaining to reversal of allowances related to loans and interest receivables due to the designation as held for sale of our U.S. consumer credit portfolio. Operating margin decreased in 2016 due primarily to growth in our transaction expense and transaction and loan losses, which together increased 30% in 2016 compared to 2015.

Net income increased by \$394 million, or 28%, in 2017 and \$173 million, or 14%, in 2016. The increase in net income in 2017 was attributable to an increase in operating income of \$541 million and an increase in other income (expense), net of \$28 million, partially offset by an increase in income tax expense of \$175 million. The increase in net income in 2016 was attributable to an increase in operating income of \$125 million, a decrease in income tax expense of \$30 million and an increase in other income (expense), net of \$18 million.

### Non-GAAP financial measures

The following table provides a summary of our consolidated non-GAAP financial measures for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,			Percent Increase/(Decrease)	
	2017	2016	2015	2017	2016
	(In millions, except percentages and per share amounts)				
Non-GAAP net revenues	\$13,055	\$10,842	\$9,248	20%	17%
Non-GAAP operating income	\$ 2,755	\$ 2,174	\$ 1,975	27%	10%
Non-GAAP operating margin	21%	20%	21%	**	**
Non-GAAP income tax expense	\$ 510	\$ 394	\$ 402	29%	(2)%
Non-GAAP net income	\$ 2,318	\$ 1,825	\$ 1,588	27%	15%
Non-GAAP net income per diluted share <sup>(1)(2)</sup>	\$ 1.90	\$ 1.50	\$ 1.29	27%	16%
Free Cash Flow	\$ 1,864	\$ 2,489	\$ 1,824	(25)%	36%

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

<sup>(1)</sup> On July 17, 2015, the distribution date, eBay stockholders of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held as of the record date.

<sup>(2)</sup> The weighted average number of common shares outstanding for diluted earnings per share for the year ended December 31, 2015 was based on the number of common shares distributed on July 17, 2015 for the period prior to distribution and the weighted average number of common shares outstanding for the period beginning after the distribution date.

\*\* Not Meaningful

Non-GAAP net revenues, non-GAAP operating income, non-GAAP operating margin, non-GAAP income tax expense, non-GAAP net income, non-GAAP net income per diluted share and free cash flow are not financial measures prepared in accordance with generally accepted accounting principles ("GAAP"). For information on how we compute these non-GAAP financial measures and a reconciliation to the most directly comparable financial measures prepared in accordance with GAAP, please refer to "Non-GAAP Financial Information" below.

### IMPACT OF FOREIGN CURRENCY EXCHANGE RATES

We have significant operations internationally that are denominated in foreign currencies, primarily the British Pound, Euro, Australian Dollar and Canadian Dollar, subjecting us to foreign currency risk which may adversely impact our financial results. The strengthening or weakening of the U.S. dollar versus the British Pound, Euro, Australian Dollar and Canadian Dollar, as well as other currencies in which we conduct our international operations, impacts the translation of our net revenues and expenses generated in these foreign currencies into the U.S. dollar. In 2017, 2016 and 2015, we generated approximately 46%, 47% and 50% of our net revenues from customers domiciled outside of the United States, respectively. During each of these periods, U.K. was the only country, other than the United States, where we generated more than 10% of total net revenues in. In 2017, 2016 and 2015, net revenues generated from the EU (excluding the U.K.) constituted approximately 20% of total net revenues. Because we have generated substantial net revenues internationally in recent periods, including during the periods presented, we are subject to the risks of doing business in countries outside of the U.S. as discussed under "Item 1A. Risk Factors—Risk Factors That May Affect Our Business, Results of Operations and Financial Condition."

We calculate the year-over-year impact of foreign currency movements on our business using prior period foreign currency exchange rates applied to current period transactional currency amounts. While changes in foreign currency exchange rates affect our reported results, we have a foreign currency exchange exposure management program whereby we designate certain foreign currency exchange contracts as cash flow hedges designed to reduce the impact on earnings from foreign currency exchange rate movements. Gains and losses from these foreign currency exchange contracts are recognized as a component of transaction revenues in the same period the forecasted transactions impact earnings.

In the years ended December 31, 2017 and 2016, the year-over-year foreign currency movements relative to the U.S. dollar had the following impact on our reported results:

	Year Ended December 31,	
	2017	2016
	(In millions)	
Favorable (Unfavorable) impact to net revenues (exclusive of hedging impact)	\$ 10	\$(196)
Hedging impact	17	119
Favorable (Unfavorable) impact to net revenues	27	(77)
(Unfavorable) Favorable impact to operating expense	(21)	86
Net impact to operating income	\$ 6	\$ 9

While we enter into foreign exchange contracts to help reduce the impact on earnings from foreign currency rate movements, it is impossible to predict or eliminate the total effects of this exposure.

Additionally, in connection with our services in multiple currencies, we generally set our foreign currency exchange rates twice per day, and may face financial exposure if we incorrectly set our foreign currency exchange rates or as a result of fluctuations in foreign currency exchange rates between the times that we set our foreign currency exchange rates. Given that we also have foreign currency exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries, we have an additional foreign currency exchange exposure management program whereby we use foreign currency exchange contracts to offset the impact of currency exchange rate movements on our assets and liabilities. The foreign currency gains and losses on our assets and liabilities are recorded in other income (expense), net, and are offset by the gains and losses on the foreign currency exchange contracts. These foreign currency exchange contracts reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities.

## FINANCIAL RESULTS

### NET REVENUES

#### Revenue description

We earn revenue primarily by processing customer transactions on our Payments Platform and from other value added services. Our revenues are classified into the following two categories:

- **Transaction revenues:** Net transaction fees charged to consumers and merchants primarily based on the volume of activity, or Total Payments Volume ("TPV"), processed through our Payments Platform. We define TPV as the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products. Growth in TPV is directly impacted by the number of payment transactions that we enable on our Payments Platform. Payment transactions are the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products. We earn additional fees on transactions settled in foreign currencies when we enable cross-border transactions (i.e., transactions where the merchant or consumer are in different countries).
- **Other value added services:** Net revenues derived principally from interest and fees earned on our loans and interest receivable, net and held for sale portfolio, subscription fees, gateway fees, gains on sale of participation interests in certain consumer loans receivable and working capital loans and advances, revenue share we earn through partnerships, interest earned on certain PayPal customer account balances, fees earned through our Paydiant products and other services that we provide to consumers and merchants.

Our revenues can be significantly impacted by the following:

- The mix of merchants, products and services;
- The mix between domestic and cross-border transactions;
- The geographic region or country in which a transaction occurs; and
- The amount of PayPal credit loans receivable outstanding with consumers and merchants.



### Net revenues analysis

The components of our net revenue for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2017	2016	2015	2017	2016
(In millions, except percentages)					
Transaction revenues	\$ 11,402	\$ 9,490	\$ 8,128	20%	17%
Other value added services	1,692	1,352	1,120	25%	21%
Net revenues	\$13,094	\$10,842	\$9,248	21%	17%

### Transaction revenues

Transaction revenues increased by \$1.9 billion, or 20%, in 2017 compared to 2016, and by \$1.4 billion, or 17%, in 2016 compared to 2015. The increase in transaction revenues in 2017 and 2016 was due primarily to the growth in TPV, mainly from our PayPal and Braintree products, and in the number of payment transactions, both of which were due primarily to an increase in our active customer accounts and increased engagement from our customers (measured by payment transactions per active account). Xoom transaction revenues contributed two percentage points to the 2016 growth rate. Net gains from our foreign currency exchange contracts recognized as a component of transaction revenues in 2017 were \$17 million, compared to \$119 million in 2016. Refer to “Note 8—Derivative Instruments” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information on our foreign currency exposure management program.

The following table provides a summary of our active customer accounts, number of payment transactions, TPV and related metrics:

	Year Ended December 31,			Percent Increase/(Decrease)	
	2017	2016	2015	2017	2016
(In millions, except percentages)					
Active customer accounts <sup>(1)</sup>	227	197	179	15%	10%
Number of payment transactions <sup>(2)</sup>	7,606	6,129	4,928	24%	24%
Payment transactions per active account <sup>(3)</sup>	33.6	31.1	27.5	8%	13%
Total TPV <sup>(4)</sup>	\$451,265	\$354,014	\$281,764	27%	26%
Percent of cross-border TPV	21%	22%	22%	**	**

All amounts in tables are rounded to the nearest millions except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

<sup>(1)</sup> An active customer account is a registered account that successfully sent or received at least one payment or payment reversal through our Payments Platform, excluding transactions processed through our gateway and Paydiant products, in the past 12 months.

<sup>(2)</sup> Payment transactions are the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products.

<sup>(3)</sup> Number of payment transactions per active customer account reflects the total number of payment transactions within the previous 12 month period, divided by active customer accounts at the end of the period.

<sup>(4)</sup> TPV is the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products.

\*\* Not meaningful

Transaction revenues grew more slowly than both TPV and number of payment transactions in 2017 due primarily to a higher proportion of person-to-person (“P2P”) transactions, primarily from our PayPal and Venmo products from which we earn lower rates and foreign exchange hedging losses. The percentage growth in transaction revenues was lower than the percentage growth in TPV and payment transactions in 2016 primarily due to a higher proportion of P2P transactions (including our Venmo products) for which we earn lower rates, and a higher portion of TPV generated by large merchants who generally pay lower rates with higher transaction volume. The impact of increases or decreases in prices charged to our customers did not significantly impact transaction revenue growth in 2017 or 2016.

### Other value added services

Net revenues from other value added services increased by \$340 million, or 25%, in 2017 compared to 2016, and by \$232 million, or 21%, in 2016 compared to 2015. Growth in net revenues from other value-added services in 2017 was due primarily to interest and fee income earned on our PayPal credit loans receivable portfolio. Swift revenues contributed approximately three percentage points to the 2017 growth rate. The total consumer and merchant loans receivable balance, including loans and receivables, held for sale, as of December 31, 2017 and December 31, 2016 was \$7.8 billion and \$5.7 billion, respectively, reflecting a year-over-year increase of 37%.

In November 2017, we reached an agreement to sell our U.S. consumer credit receivables portfolio to Synchrony Bank, which we believe will enable us, at closing, to free up balance sheet capacity and cash flow for other uses, and mitigate balance sheet risk. Historically, this portfolio was reported as outstanding principal balances, net of any participation interest sold and pro-rata allowances including, unamortized deferred origination costs and estimated collectible interest and fees. Upon approval of the decision to sell these receivables from our Board of Directors, the portfolio was reclassified as held for sale, and recorded at the lower of cost or fair value. Due to the designation as held for sale, the associated allowance for this portfolio was reversed, resulting in an increase of approximately \$39 million in revenue from other value added services. This transaction will be accounted for as a sale, and the receivables will no longer be reported in our consolidated financial statements.

Following the closing of this transaction, which is expected to occur in the third quarter of 2018, Synchrony Bank will become the exclusive issuer of the PayPal Credit online consumer financing program in the U.S., and we will no longer hold an ownership interest in the receivables generated through the program (other than charged off receivables). In addition, we will earn a profit share on the portfolio of consumer receivables owned by Synchrony Bank.

Growth in net revenues from other value added services in 2016 was due primarily to interest and fee income earned on our PayPal Credit loans receivable portfolio. The total consumer and merchant loans receivable balance as of December 31, 2016 and December 31, 2015 was \$5.7 billion and \$4.4 billion, respectively, reflecting a year-over-year increase of 29%.

In the third quarter of 2015, we amended the terms of our credit program agreement with Synchrony Bank. As a result of the amendment, we recognized \$78 million of revenue under the agreement during 2015. In addition, as part of the amended agreement, our obligation to purchase the portfolio of consumer loan receivables relating to the customer accounts arising out of the credit program agreement with Synchrony Bank was terminated. The amended credit program agreement will, upon closing of the sale of our U.S. consumer credit receivable portfolio to Synchrony Bank, be superseded by the new program agreement signed in November 2017.

In the second quarter of 2015, we completed an arrangement with certain investors under which we sold participation interests in certain consumer loans and interest receivables related to our PayPal Credit product with a gross book value of approximately \$708 million. In connection with its purchase of our U.S. consumer credit receivable portfolio, Synchrony Bank has also agreed to acquire the participation interests held by the investors.

## OPERATING EXPENSES

Beginning with the first quarter of 2016, we reclassified certain operating expenses in our consolidated statements of income to better align our external and internal financial reporting. These classification changes relate primarily to real estate and information technology operating expenses that were previously allocated among customer support and operations expense, sales and marketing expense and product development expense. Our management no longer allocates these operating expenses for internal financial reporting purposes or general management of the business and has therefore discontinued this allocation for external financial reporting purposes. As a result, starting with the first quarter of 2016 these operating expenses were reported as part of general and administrative expenses. These changes have no impact on the previously reported consolidated net income for prior periods, including total operating expenses, financial position or cash flows for any periods presented, and do not eliminate any of the costs allocated to us by eBay for any periods prior to the separation. Prior period amounts have been reclassified to conform to the current period presentation. See "Note 1—Overview and Summary of Significant Accounting Policies" to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information on the effects of the changes on the presentation of operating expenses to our previously reported consolidated statement of income. Growth rates presented below are calculated based upon the reclassified prior period amounts.

The following table summarizes our operating expenses and related metrics we use to assess the trend in each:

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2017	2016	2015	2017	2016
	(In millions, except percentages)				
Transaction expense	\$ 4,419	\$3,346	\$2,610	32%	28%
Transaction and loan losses	1,011	1,088	809	(7)%	34%
Customer support and operations	1,364	1,267	1,110	8%	14%
Sales and marketing	1,128	969	937	16%	3%
Product development	953	834	792	14%	5%
General and administrative	1,155	1,028	873	12%	18%
Depreciation and amortization	805	724	608	11%	19%
Restructuring and other charges	132	—	48	**	**
Total operating expenses	\$10,967	\$9,256	\$7,787	18%	19%
Transaction expense rate <sup>(1)</sup>	0.98%	0.95%	0.93%		
Transaction and loan loss rate <sup>(2)</sup>	0.22%	0.31%	0.29%		

<sup>(1)</sup> Transaction expense rate is calculated by dividing transaction expense by TPV

<sup>(2)</sup> Transaction and loan loss rate is calculated by dividing transaction and loan losses by TPV

\*\* Not Meaningful

### Transaction expense

Transaction expense is primarily composed of the costs we incur to accept a customer's funding source of payment. These costs include fees paid to payment processors and other financial institutions in order to draw funds from a customer's credit or debit card, bank account or other funding source they have stored in their digital wallet. Transaction expense also includes fees paid to disbursement partners to enable a transaction and interest expense on borrowings incurred to finance our portfolio of loans receivable arising from our PayPal Credit funding option. We refer to the allocation of funding sources used by our consumers as our "funding mix." The cost of funding a transaction with a credit or debit card is generally higher than the cost of funding a transaction from a bank or through internal sources such as a PayPal account balance or PayPal Credit. As we expand the availability of alternative funding sources to our customers, a change in funding mix can increase or decrease our transaction expense rate. The cost of funding a transaction is also impacted by the geographic region or country in which a transaction occurs because we generally pay lower rates for transactions funded with credit cards outside the U.S. than in the U.S.

Transaction expense increased by \$1.1 billion, or 32%, in 2017 compared to 2016, and increased by \$736 million, or 28%, in 2016 compared to 2015. The increase in transaction expense in 2017 was primarily attributable to an increase in TPV of 27% and higher assessments charged by payment processors and other financial institutions. The increase in transaction expense in 2016 was primarily attributable to an increase in TPV of 26%.

The increase in our transaction expense rate in 2017 compared to 2016 was due primarily to higher assessments charged by payment processors and other financial institutions. Our transaction expense rate in 2016 increased compared to 2015 due primarily to changes in funding mix. For the years ended December 31, 2017, 2016 and 2015, approximately 2% of TPV was funded with PayPal Credit. For the years ended December 31, 2017, 2016 and 2015, approximately 44%, 45%, and 45% of TPV, respectively, was generated outside of the U.S. Interest expense on borrowings incurred to finance our portfolio of loans receivable, included in transaction expense, was not material for the years ended December 31, 2017, 2016 and 2015.

### Transaction and loan losses

Transaction losses include the expense associated with our customer protection programs, fraud, and chargebacks. Loan losses include the losses associated with our consumer and merchant loans receivable portfolio, except loans and interest receivable, held for sale. Our transaction and loan losses fluctuate depending on many factors, including TPV, macroeconomic conditions, changes to our customer protection programs, the impact of regulatory changes, and the credit quality of loans receivable arising from transactions funded with our credit products for consumers and loans and advances to merchant sellers. Additionally, prior to the distribution we recovered certain amounts from eBay related to customer protection programs offered on eligible eBay purchases made with PayPal. These costs included the actual amount of protection losses associated with eBay's customer protection programs that we administered and funded on behalf of eBay, which were included as a reduction of transaction and loan losses. Recoveries associated with protection losses incurred on eligible eBay purchases during the year ended December 31, 2015 were \$27 million. Following the distribution, we no longer administer eBay's customer protection programs or recover amounts from eBay associated with protection losses incurred on eligible eBay purchases; instead, we and eBay each independently administer our own customer protection programs. Further, our customer protection programs extend to customers' eligible purchases on

eBay and therefore we have incurred and expect to continue to incur incremental costs associated with our customer protection programs following the distribution.

The components of our transaction and loan losses for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2017	2016	2015	2017	2016
(In millions, except percentages)					
Transaction losses	\$ 823	\$ 655	\$ 511	26%	28%
Loan losses	188	433	298	(57)%	45%
Transaction and loan losses	\$1,011	\$1,088	\$809	(7)%	34%

Transaction and loan losses decreased by \$77 million, or 7%, in 2017 compared to 2016, and increased by \$279 million, or 34%, in 2016 compared to 2015.

Transaction losses increased by \$168 million, or 26%, in 2017 compared to 2016, and increased by \$144 million, or 28%, in 2016 compared to 2015, due primarily to higher TPV. Our transaction loss rate, calculated by dividing transaction loss by TPV, in 2017 and 2016 was roughly flat compared to 2016 and 2015, respectively. The growth in transaction losses in 2016 was higher than the growth in TPV in 2016 due primarily to lower incremental costs in 2015 associated with our customer protection programs following the distribution.

Loan losses decreased by \$245 million, or 57%, in 2017 compared to 2016 and increased by \$135 million, or 45%, in 2016 compared to 2015. The decrease in loan losses in 2017 was due primarily to the reversal of approximately \$283 million of allowance on loans receivable due to the designation of our U.S. consumer credit portfolio as held for sale. The increase in loan losses in 2016 was due primarily to an increase in the loans receivable balance year over year and additional reserves recorded in that period due to increases to forecasted principal balance delinquency rates. The total consumer loans receivable balance as of December 31, 2017, 2016 and 2015 was \$326 million, \$5.1 billion, and \$4.0 billion, respectively, reflecting year-over-year decrease of 94% from 2016 to 2017 and an increase of 28% from 2015 to 2016. The decrease in consumer loan receivables in 2017 was due to designation of U.S. consumer credit portfolio as held for sale. The increase in consumer loans receivable in 2016 was due to the growth in the portfolio of loans receivable outstanding arising from consumers who chose PayPal Credit as a funding option and an increase in working capital advances to selected merchant sellers.

The following table provides information regarding the credit quality of our pool of consumer loans and interest receivable balances:

	December 31,	
	2017	2016
Percent of consumer loans and interest receivables current <sup>(1)</sup>	96.0%	90.0%
Percent of consumer loans and interest receivables > 90 days outstanding <sup>(1)(2)</sup>	1.2%	4.1%
Net charge off rate <sup>(1)(3)</sup>	3.9%	6.4%

<sup>(1)</sup> Amounts as of December 31, 2017 represent loans and interest receivables due from consumer accounts not classified as held for sale and amounts as of December 31, 2016 represent total consumer loans and interest receivables including U.S. consumer receivables because they were not classified as held for sale as of that date.

<sup>(2)</sup> Represents percentage of balances which are 90 days past the billing date to the consumer.

<sup>(3)</sup> Net charge off rate is the annual ratio of net credit losses on consumer loans receivables as a percentage of the average daily amount of consumer loans and interest receivables balance during the year.

Through our PayPal Working Capital product, we offer credit products to certain small and medium-sized merchants that are existing users of our other payment services. Total PayPal Working Capital loans, advances and fees receivable outstanding as of December 31, 2017, net of participation interest sold, were \$703 million. Total PayPal Working Capital loans, advances and fees receivable outstanding as of December 31, 2016 were \$558 million, reflecting a year-over-year increase of 26% due to the increase in the availability of our credit products domestically and internationally.

To assess a merchant who requests a PayPal Working Capital loan or advance, we use, among other indicators, an internally developed risk model that we refer to as our PayPal Working Capital Risk Model ("PRM"), as a credit quality indicator to help predict the merchant's ability to repay the amount of the loan or advance and fixed fee. The PRM uses multiple variables as predictors of the merchant's ability to repay a working capital loan or advance. Primary drivers of the model include the merchant's annual payment volume and payment processing history with PayPal, prior repayment history with the PayPal Working Capital product, and other measures. Merchants are assigned a PRM credit score within the range of 350 to 750. We

generally expect that merchants to which we extend a working capital loan or advance will have PRM scores greater than 525. We generally consider scores above 610 to be very good and to pose less credit risk. For all outstanding working capital loans and advances, we assess a participating merchant's PRM score on a recurring basis. At December 31, 2017 and December 31, 2016, the weighted average PRM score related to our PayPal Working Capital balances outstanding was 619 and 625, respectively.

The number of days our PayPal Working Capital loans and advances receivables are past due is based on the current expected repayment period of the loan or advance and fixed fee as compared to an original expected repayment period. We generally calculate the repayment rate of the merchant's estimated future payment volume such that repayment of the advance and fixed fee is expected to occur within 9 to 12 months from the date of the loan or advance. On a monthly basis, we recalculate the repayment period based on the repayment activity on the receivable. As such, actual repayment periods are dependent on actual payment processing volumes. We monitor receivables with repayment periods greater than the original expected repayment period.

As of December 31, 2017, the total outstanding balance in our pool of Swift merchant loans, advances, interest and fees receivable was \$309 million. We closely monitor credit quality for all merchant loans and advances, so that we can evaluate, quantify, and manage our credit risk exposure. To assess a merchant seeking a loan or an advance, we use, among other indicators, a risk model developed internally which utilizes information obtained from multiple data sources, both external and internal, to predict the likelihood of timely and satisfactory repayment by the merchant of the loan or advance amount and the related interest or fixed fee. Drivers of the model include elements sourced from a consumer credit bureau report, business credit bureau report, prior repayment history with our products where available, and other information obtained during the application process. We use delinquency status and trends to assist in making new and ongoing credit decisions, to adjust our internal model, plan our collection practices and strategies and in the end our determination of our allowance for these loans and advances.

For Swift business loan and advance products, the determination of delinquency, from current to 180 days past due, is based on the current expected repayment period of the loan and fixed fee payment as compared to the original expected repayment period.

The following table provides information regarding the credit quality of our merchant receivables:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
PayPal Working Capital loans and advances		
Percentage of merchant receivables with PRM scores > 610	64.0%	67.7%
Percentage of merchant receivables with PRM scores < 525	16.1%	12.9%
Percent of merchant receivables within original expected repayment period	83.8%	82.8%
Percent of merchant receivables > 90 days outstanding after the end of original expected repayment period	7.1%	7.5%
Swift business loans and advances		
Percent of merchant receivables within original expected repayment period	95.5%	N/A
Percent of merchant receivables > 90 days outstanding after the end of original expected repayment period	1.9%	N/A

Modifications to the acceptable risk parameters of our PayPal credit products for the periods presented did not have a material impact on our loans. For additional information, see "Note 10—Loans and Interest Receivable" in the notes to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

#### Customer support and operations

Customer support and operations expenses include costs incurred to provide 24-hour call support to our customers, our site operations and other infrastructure costs incurred to support our Payments Platform, costs to support our trust and security programs protecting our merchants and consumers and other costs incurred related to the delivery of our products.

Customer support and operations costs increased \$97 million, or 8%, in 2017 compared to 2016 and increased \$157 million, or 14%, in 2016 compared to 2015. The increase in 2017 was due primarily to an increase in network infrastructure expenses and contractor and employee related expenses to support the growth in our active customer accounts and the number of payment transactions occurring on our Payments Platform. The increase in 2016 was due primarily to an increase in contractor and employee related expenses to service the growth in our active customer accounts and the number of payment transactions occurring on our Payments Platform.

#### Sales and marketing

Sales and marketing expenses consist primarily of customer acquisition, business development, advertising, marketing programs, and employee compensation and contractor costs to support these programs.

Sales and marketing expenses increased \$159 million, or 16%, in 2017 compared to 2016 and increased \$32 million, or 3%, in 2016 compared to 2015. The increase in 2017 was due primarily to higher spend on external marketing campaigns and higher employee related expenses. The increase in 2016 was due primarily to higher marketing spend related to Xoom on advertising campaigns intended to enhance our global brand recognition.

#### Product development

Product development expenses consist primarily of employee compensation and contractor costs that are incurred in connection with the development of our Payments Platform, new products and the improvement of our existing products. Product development expenses exclude software and website development costs that are capitalized. The amortization of developed technology is included in depreciation and amortization expense.

Product development expenses increased \$119 million, or 14%, in 2017 compared to 2016 and increased \$42 million, or 5%, in 2016 compared to 2015. The increase in 2017 was due primarily to an increase in employee related expenses. The increase in 2016 was due primarily to an increase in employee related expenses, driven primarily by Xoom, offset by a decrease in contractor related expenses.

#### General and administrative

General and administrative expenses consist primarily of costs incurred to provide support to our business, including legal, human resources, finance, risk and compliance, executive and other support operations. Our legal expenses, including those related to ongoing legal and regulatory proceedings, settlements, judgments and fines, may fluctuate substantially from period to period.

For the period prior to the separation, our consolidated financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to stock-based compensation. The expenses incurred by eBay were allocated to us based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. The corporate costs and allocation of expenses from eBay may not be indicative of the expenses that may have been incurred had we been a separate stand-alone entity during the period presented, nor are the results stated herein indicative of the expenses we may incur in the future. Such expenses could be higher or lower. In the period presented prior to the separation, a significant portion of expenses associated with these functions and allocated to us in our consolidated financial statements are included in general and administrative expenses.

General and administrative expenses increased \$127 million, or 12%, in 2017 compared to 2016 and increased \$155 million, or 18%, in 2016 compared to 2015. The increase in 2017 was due primarily to an increase in employee related expenses and professional expenses, and continued investments in compliance programs. The increase in 2016 was due primarily to an increase in employee expenses, contractor related expenses incurred to operate as an independent public company, and continued investments in compliance programs.

#### Depreciation and amortization

The primary components of our depreciation and amortization expenses include the depreciation and amortization of software, including the amortization of capitalized software and website development costs, amortization of equipment used to deliver our services and the amortization of acquired intangible assets.

Depreciation and amortization expenses increased \$81 million, or 11%, in 2017 compared to 2016, and increased \$116 million, or 19%, in 2016 compared to 2015. The increases in 2017 and 2016 were due primarily to additional depreciation expenses associated with investments in our technology platform. Amortization expense for intangible assets was \$126 million, \$150 million and \$93 million in the years ended December 31, 2017, 2016 and 2015, respectively. The decrease in amortization of acquired intangibles in 2017 was due primarily to lower amortization expense resulting from fully amortized assets. Additionally, the increase in depreciation and amortization in 2017 was partially attributable to an impairment charge of \$30 million related to a portion of the acquired customer-related intangible assets. For additional information, see “Note 4—Goodwill and Intangible Assets” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The increase in amortization of intangibles in 2016 was due primarily to our acquisitions completed in 2015.

#### Restructuring and other charges

Restructuring and other charges consist of restructuring expenses and cost adjustments related to our loans and receivables, held for sale portfolio. Restructuring and other charges increased by \$132 million in 2017 compared to 2016 due to restructuring charges of \$40 million and cost adjustments of \$92 million related to our loans and receivables, held for sale portfolio.

In the first quarter of 2017, management approved a plan to implement a strategic reduction of the existing global workforce which was substantially completed by the end of 2017. We recognized \$40 million of restructuring expenses during the year ended December 31, 2017. No restructuring expenses were recognized in 2016. In January 2015, at a regular meeting of eBay's board of directors (the “eBay Board”), the eBay Board approved a plan to implement a strategic reduction of its existing global workforce. The reduction was completed by the end of 2015 primarily impacting sales and marketing and product development expenses. Restructuring expenses were \$48 million in 2015.



Subsequent to the designation as held for sale of the U.S. consumer credit receivables portfolio in November 2017, approximately \$92 million related to adjustments to the cost basis, which are primarily driven by charge offs against those loans and interest receivables, were recorded in restructuring and other charges during the year ended December 31, 2017.

#### Income Tax Expense

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which will result in a one time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the "Transition Tax").

In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional estimate of discrete net tax expense of \$180 million in the period ended December 31, 2017. This discrete expense consists of provisional estimates of \$1,468 million net expense for the Transition Tax payable in installments over eight years, \$1,295 million net benefit for the decrease in our deferred tax liability on unremitted foreign earnings, and \$7 million net expense for remeasurement of our deferred tax assets/liabilities for the corporate rate reduction and changes in our valuation allowance.

We have not completed our accounting for the income tax effects of certain elements of the Tax Act, including the new GILTI and BEAT taxes. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act and whether such taxes are recorded as a current-period expense when incurred or whether such amounts should be factored into a company's measurement of its deferred taxes. As a result, we have not included an estimate of the tax expense/benefit related to these items for the period ended December 31, 2017.

Our effective tax rate was 18% in 2017, 14% in 2016, and 17% in 2015. The increase in our effective tax rate in 2017 was primarily due to discrete net tax expense recorded for U.S. tax reform, partially offset by the adoption of the new stock-based compensation accounting standard in 2017. The decrease in our effective tax rate during 2016 compared to 2015 was due primarily to favorable discrete tax adjustments during the year ended December 31, 2016 and other separation-related costs incurred during the year ended December 31, 2015. See "Note 17—Income Taxes" to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information on our effective tax rate.

#### NON-GAAP FINANCIAL INFORMATION

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts that create differences between the most directly comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Pursuant to the requirements of Regulation S-K, the following portion of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes a reconciliation of certain non-GAAP financial measures to the most directly comparable GAAP financial measures. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP.

We present non-GAAP financial measures to enhance an investor's evaluation of our operating results and to facilitate meaningful comparisons of our results between periods. Management uses these non-GAAP financial measures to, among other things; evaluate our operations, for internal planning and forecasting purposes and in the calculation of performance-based compensation.

We exclude the following items from non-GAAP net income, non-GAAP net income per diluted share, non-GAAP operating income, non-GAAP operating margin and non-GAAP effective tax rate:

- **Stock-based compensation expense and related employer payroll taxes.** This consists of expenses for equity awards under our equity incentive plans. We exclude stock-based compensation expense from our non-GAAP measures primarily because they are non-cash expenses. The related employer payroll taxes are dependent on our stock price and the timing and size of exercises and vesting of equity awards, over which management has limited to no control, and as such management does not believe it correlates to the operation of our business.
- **Amortization or impairment of acquired intangible assets,** impairment of goodwill and transaction expenses from the acquisition or disposal of a business. We incur amortization or impairment of acquired intangible assets and goodwill in connection with acquisitions and may incur significant gains or losses or transactional expenses from the acquisition or disposal of a business and therefore exclude these amounts from our non-GAAP measures. We exclude these items because management does not believe they are reflective of our ongoing operating results.
- **Separation.** These are significant expenses related to the separation of our business from eBay into a separate, independent publicly traded company. These consist primarily of third-party consulting fees, legal fees, employee retention payments and other expenses incurred to complete the separation. We exclude these items because management does not believe they are reflective of our ongoing operating results.



- **Restructuring.** These consist of expenses for employee severance and other exit and disposal costs. We exclude restructuring charges primarily because management does not believe they are reflective of ongoing operating results.
- **Certain other significant gains, losses, benefits, or charges that are not indicative of our core operating results.** These are significant gains, losses, benefits, or charges during a period that are the result of isolated events or transactions which have not occurred frequently in the past and are not expected to occur regularly in the future. We exclude these amounts from our non-GAAP results because management does not believe they are indicative of our ongoing operating results.
- **Tax effect of non-GAAP adjustments.** This adjustment is made to present stock-based compensation and the other amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income.

The following table provides reconciliations of our consolidated non-GAAP financial measures to the most directly comparable GAAP financial measures for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(In millions, except percentages)		
GAAP net revenues	\$13,094	\$10,842	\$9,248
Other <sup>(1)</sup>	(39)	—	—
Non-GAAP net revenues	\$13,055	\$10,842	\$9,248

<sup>(1)</sup> Elimination of allowance on interest receivable due to the U.S. consumer credit portfolio designation as held for sale.

	Year Ended December 31,		
	2017	2016	2015
	(In millions, except percentages)		
GAAP operating income	\$2,127	\$1,586	\$1,461
Stock-based compensation expense and related employer payroll taxes	761	455	356
Amortization of acquired intangible assets <sup>(1)</sup>	129	133	85
Separation	—	—	15
Restructuring	40	—	48
Other <sup>(2)</sup>	(302)	—	—
Acquisition related transaction expense	—	—	10
Total non-GAAP operating income adjustments	628	588	514
Non-GAAP operating income	\$2,755	\$2,174	\$1,975
Non-GAAP operating margin	21%	20%	21%

<sup>(1)</sup> Includes \$30 million impairment related to a portion of acquired TIO customer-related intangible assets in 2017.

<sup>(2)</sup> Includes elimination of allowance on loans receivable (\$283 million), allowance on interest receivable (\$39 million) due to the U.S. consumer credit portfolio designation as held for sale and certain fees associated with the sale (\$5 million), and impairment of an investment in an intellectual property fund (\$15 million).

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions, except percentages)</b>		
GAAP income before income taxes	\$2,200	\$1,631	\$1,488
GAAP income tax expense	405	230	260
GAAP net income	1,795	1,401	1,228
Non-GAAP adjustments to net income:			
Non-GAAP operating income adjustments (see table above)	\$ 628	\$ 588	\$ 514
Other <sup>(1)</sup>	224	—	—
Separation (other income and expense)	—	—	(12)
Tax effect of non-GAAP adjustments	(329)	(164)	(142)
Non-GAAP net income	\$ 2,318	\$1,825	\$1,588
GAAP income tax expense	\$ 405	\$ 230	\$ 260
Non-GAAP tax adjustments	105	164	142
Non-GAAP income tax expense	\$ 510	\$ 394	\$ 402
GAAP net income per diluted share	\$ 1.47	\$ 1.15	\$ 1.00
Non-GAAP net income per diluted share	\$ 1.90	\$ 1.50	\$ 1.29
Shares used in GAAP diluted share calculation <sup>(2)(3)</sup>	1,221	1,218	1,229
Shares used in non-GAAP diluted share calculation <sup>(2)(3)</sup>	1,221	1,218	1,229
GAAP effective tax rate	18%	14%	17%
Tax effect of non-GAAP adjustments to net income	—%	4%	3%
Non-GAAP effective tax rate	18%	18%	20%

<sup>(1)</sup> Tax expense related to the Tax Act (\$180 million) and intra-entity transfer of intellectual property (\$44 million).

<sup>(2)</sup> On July 17, 2015, the distribution date, eBay stockholders of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held as of the record date.

<sup>(3)</sup> The weighted average number of common shares outstanding for basic and diluted earnings per share for the year ended December 31, 2015 was based on the number of common shares distributed on July 17, 2015 for the period prior to distribution and the weighted average number of common shares outstanding for the period beginning after the distribution date.

In addition to the non-GAAP measures discussed above, we also use free cash flow to assess our performance. Free cash flow represents cash flows from operating activities less purchases of property and equipment. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases of property and equipment, and including investments in our Payments Platform, which can then be used to, among other things, invest in our business, make strategic acquisitions, and repurchase stock. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in our cash balance for the period.

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		
Net cash provided by operating activities	\$2,531	\$3,158	\$2,546
Less: Purchases of property and equipment	(667)	(669)	(722)
Free cash flow	\$1,864	\$2,489	\$1,824

## LIQUIDITY AND CAPITAL RESOURCES

We require liquidity and access to capital to fund our global operations, including customer protection programs, our PayPal credit products, capital expenditures, investments in our business, potential acquisitions, working capital and other cash needs. The following table summarizes the cash, cash equivalents and investments as of December 31, 2017 and December 31, 2016:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
Cash, cash equivalents and investments <sup>(1)(2)</sup>	\$7,487	\$6,447

<sup>(1)</sup> Excludes assets related to customer accounts of \$18.2 billion and \$14.4 billion at December 31, 2017 and December 31, 2016, respectively.

<sup>(2)</sup> Excludes total restricted cash of \$81 million and \$17 million at December 31, 2017 and December 31, 2016, respectively, and cost method investments of \$88 million and \$50 million as of December 31, 2017 and December 31, 2016, respectively.

Cash, cash equivalents and investments held by our foreign subsidiaries were \$6.1 billion as of December 31, 2017 and \$5.0 billion at December 31, 2016, or 81% and 78% of our total cash, cash equivalents and investments as of those respective dates. At December 31, 2017 all of our cash, cash equivalents and investments held by foreign subsidiaries were subject to U.S. taxation under the one-time transition tax as further discussed in “Note 17—Income Taxes” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Subsequent repatriations will not be taxable from a U.S. federal tax perspective, but may be subject to state or foreign withholding tax.

In the fourth quarter of 2017, we entered into a credit agreement (“2017 Credit Agreement”) that provides for an unsecured \$3.0 billion, 364-day delayed-draw term loan credit facility, which is available in up to three borrowings. Borrowings and other amounts payable under the 2017 Credit Agreement are guaranteed by our PayPal, Inc. subsidiary. Subject to specified conditions, we may designate one or more of our subsidiaries as additional borrowers under the 2017 Credit Agreement provided that we and PayPal, Inc. guarantee all borrowings and other obligations of any such subsidiaries under the 2017 Credit Agreement. As of December 31, 2017, no subsidiaries were designated as additional borrowers. Funds borrowed under the 2017 Credit Agreement may be used for capital allocation and other general corporate purposes of us and our subsidiaries.

Loans under the 2017 Credit Agreement will bear interest at either (i) the London Interbank Offered Rate (“LIBOR”) plus a margin (based on our public debt ratings) ranging from 1.00 percent to 1.25 percent or (ii) a formula based on the agent bank’s prime rate, the NYFRB rate (the greater of the federal funds effective rate and the overnight bank funding rate) or LIBOR plus a margin (based on our public debt ratings) ranging from zero percent to 0.25 percent. The 2017 Credit Agreement will terminate and all amounts owing thereunder will be due and payable in December 2018, unless the commitments are terminated earlier, either at our request or, if an event of default occurs, by the lenders (or automatically in the case of certain bankruptcy-related events). Subject to certain exceptions, if we were to issue debt securities or enter into a credit facility, a corresponding portion of the aggregate commitments and outstanding loans under the 2017 Credit Agreement will be terminated and be required to be paid, as applicable. The 2017 Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including financial covenants, events of default and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding the incurrence of liens, subject to certain exceptions. The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio, based on our public debt ratings.

As of December 31, 2017, \$1.0 billion was outstanding under the 2017 Credit Agreement at an interest rate of 2.78% (one month LIBOR plus a margin of 1.125%). Accordingly, at December 31, 2017, \$2.0 billion of borrowing capacity was available for the purposes permitted by the 2017 Credit Agreement, subject to customary conditions to borrowing.

The company maintains uncommitted credit facilities in various regions throughout the world, aggregating to approximately \$250 million. Interest rate terms for these facilities vary by region and reflect prevailing market rates for companies with strong credit ratings. As of December 31, 2017, no amounts were outstanding under these facilities, and therefore, approximately \$250 million of borrowing capacity was available, subject to customary conditions to borrowing.

In the third quarter of 2015, we entered into a credit agreement (“2015 Credit Agreement” and collectively with the 2017 Credit Agreement, the “Credit Agreements”) that provides for an unsecured \$2.0 billion, five-year revolving credit facility that includes a \$150 million letter of credit sub-facility and a \$150 million swingline sub-facility, with available borrowings under the revolving credit facility reduced by the amount of any letters of credit and swingline borrowings outstanding from time to time. Borrowings and other amounts payable under the 2015 Credit Agreement are guaranteed by our PayPal, Inc. subsidiary. We may also, subject to the agreement of the applicable lenders, increase the commitments under the revolving credit facility by up to \$500 million. Subject to specified conditions, we may designate one or more of our subsidiaries as additional borrowers under the 2015 Credit Agreement provided that we and PayPal, Inc. guarantee all borrowings and other obligations of any such subsidiaries under the 2015 Credit Agreement. As of December 31, 2017, no subsidiaries were designated as additional borrowers. Funds borrowed under the 2015 Credit Agreement may be used for working capital, capital expenditures, acquisitions and other general corporate purposes.

Loans under the 2015 Credit Agreement will bear interest at either (i) LIBOR plus a margin (based on our public debt ratings) ranging from 1.00 percent to 1.625 percent or (ii) a formula based on the agent bank’s prime rate, the federal funds effective rate or LIBOR plus a margin (based on our public debt ratings) ranging from zero percent to 0.625 percent. Subject to certain conditions stated in the 2015 Credit Agreement, we and any of our subsidiaries designated as additional borrowers may borrow, prepay and re-borrow amounts under the revolving credit facility at any time during the term of the 2015 Credit Agreement. The 2015 Credit Agreement will terminate and all amounts owing thereunder will be due and payable on July 17, 2020, unless (a) the commitments are terminated earlier, either at our request or, if an event of default occurs, by the lenders (or automatically in the case of certain bankruptcy-related events), or (b) the maturity date is extended upon our request, subject to the agreement of the lenders. The 2015 Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including financial covenants, events of default and indemnification provisions in favor of the banks. The negative covenants include restrictions regarding the incurrence of liens, subject to certain exceptions. The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio, based on our public debt ratings.

During the third quarter of 2017, we drew down \$800 million under the 2015 Credit Agreement, which was repaid during the fourth quarter of 2017. As of December 31, 2017, no borrowings or letters of credit were outstanding under the 2015 Credit Agreement. Accordingly, at December 31, 2017, \$2.0 billion of borrowing capacity was available for the purposes permitted by the 2015 Credit Agreement, subject to customary conditions to borrowing.

We have a cash pooling arrangement with a financial institution for cash management purposes. The arrangement allows for cash withdrawals from the financial institution based upon our aggregate operating cash balances held within the financial institution ("Aggregate Cash Deposits"). The arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income under these arrangements. As of December 31, 2017, we had a total of \$3.3 billion in cash withdrawals offsetting our \$3.3 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

Growth in the portfolio of loan receivables increases our liquidity needs and any failure to meet those liquidity needs could adversely affect our business. We continue to evaluate partnerships and third party sources of funding of our credit portfolio. In March 2016, as approved by management and our Luxembourg banking subsidiary's Supervisory Board and as permitted within regulations set forth by the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF"), we designated \$800 million of European customer balances held in our Luxembourg banking subsidiary to be used to extend credit to our European customers. In the fourth quarter of 2017, an additional amount of \$700 million of European customer balances held in our Luxembourg banking subsidiary was approved and designated to be used to extend credit to our U.S. consumers. These funds were classified as cash and cash equivalents in our consolidated balance sheet on the date of designation and represent approximately 30% of European customer balances potentially available for corporate use by us at December 31, 2017 as determined by applying financial regulations maintained by the CSSF. We may periodically seek to designate additional amounts of customer balances, if necessary, based on utilization of the approved funds and anticipated credit funding requirements. Our objective is to expand the availability of our credit products with capital from external sources, although there can be no assurance that we will be successful in achieving that goal.

In November 2017, we reached an agreement to sell our U.S. consumer credit receivables portfolio to Synchrony Bank. Historically, this portfolio was reported as outstanding principal balances, net of any participation interest sold and pro-rata allowances including, unamortized deferred origination costs and estimated collectible interest and fees. Following the closing of this transaction, which is expected to occur in the third quarter of 2018, Synchrony Bank will become the exclusive issuer of the PayPal credit online consumer financing program in the U.S., and we will no longer hold an ownership interest in the receivables generated through the program (other than charged off receivables).

As of December 31, 2017, we continue to be rated investment grade by Standard and Poor's Financial Services, LLC and Fitch Ratings, Inc. We expect that these credit rating agencies will continue to monitor our performance, including our capital structure and results of operations. Our goal is to be rated investment grade, but as circumstances change, there are factors that could result in our credit ratings being downgraded or put on a watch list for possible downgrading. If that were to occur, it could increase our borrowing rates, including the interest rate on loans under the Credit Agreements. The risk of losses from our customer protection programs are specific to individual customers, merchants and transactions, and may also be impacted by regional variations in, and changes or modifications to, the programs, including as a result of changes in regulatory requirements. For the periods presented in these consolidated financial statements included in this report, our transaction loss rates, calculated by dividing transaction loss by TPV, ranged between 0.18% and 0.19% of TPV. Historical trends may not be an indication of future results.

In January 2016, our Board of Directors authorized a stock repurchase program that provided for the repurchase of up to \$2 billion of our common stock, with no expiration from the date of authorization. In April 2017, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to \$5 billion of our common stock, with no expiration from the date of authorization. This program became effective upon completion of the January 2016 stock repurchase program. The stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, may also be used to make opportunistic repurchases of our common stock to reduce outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives. However, any stock repurchases are subject to market conditions and other uncertainties and we cannot predict if or when any stock repurchases will be made. Moreover, we may terminate our stock repurchase programs at any time without notice.

During the year ended December 31, 2017, we repurchased approximately \$1.0 billion of our common stock under our January 2016 and April 2017 stock repurchase programs. As of December 31, 2017, a total of approximately \$5.0 billion remained available for future repurchases of our common stock under our April 2017 stock repurchase program. During the year ended December 31, 2016, we repurchased approximately \$995 million of our common stock under our January 2016 stock repurchase program. As of December 31, 2016, a total of approximately \$1.0 billion remained available for future repurchases of our common stock under our January 2016 stock repurchase program.

Our liquidity, access to capital and borrowing costs could be adversely impacted by declines in our credit rating, our financial performance, and global credit market conditions, as well as a broad range of other factors. In addition, our liquidity, access to capital and borrowing costs could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See “Item 1A. Risk Factors—Risk Factors That May Affect Our Business, Results of Operations and Financial Condition” and “Note 13—Commitments and Contingencies” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional discussion of these and other risks facing our business.

We believe that our existing cash, cash equivalents and investments, cash expected to be generated from operations, and our expected access to capital markets, together with potential external funding through third party sources, will be sufficient to fund our operating activities, anticipated capital expenditures, and PayPal credit products for the foreseeable future. Depending on market conditions, we may from time to time issue debt, including in private or public offerings, to fund our operating activities, finance acquisitions, repurchase shares under our share repurchase program, or reduce our cost of capital.

## CASH FLOWS

In March 2016, we designated \$800 million of European customer balances held in our Luxembourg banking subsidiary to be used to extend credit to our European customers. In the fourth quarter of 2017, an additional amount of \$700 million of European customer balances held in our Luxembourg banking subsidiary was approved and designated to be used to extend credit to our U.S. consumers. We have presented changes in funds receivable and customer accounts as cash flows from investing activities in our consolidated statements of cash flows based on the nature of the activity underlying our customer accounts which includes purchases of investments, maturities and sales of investments and changes in funds receivable and customer accounts. We have elected to conform the prior period statement of cash flows to the current period presentation to enhance transparency and provide comparability. See “Note 1—Overview and Summary of Significant Accounting Policies” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information on the effects of the changes on the presentation of our statement of cash flows to our previously reported consolidated statement of cash flows.

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		
Net cash provided by (used in):			
Operating activities	\$ 2,531	\$ 3,158	\$ 2,546
Investing activities	(5,358)	(4,999)	(8,038)
Financing activities	4,084	2,038	4,728
Effect of exchange rates on cash and cash equivalents	36	—	(44)
Net increase/(decrease) in cash and cash equivalents	\$ 1,293	\$ 197	\$ (808)

## OPERATING ACTIVITIES

Cash flows from operating activities includes net income adjusted for certain non-cash expenses, timing differences between expenses recognized for provision for transaction and loan losses and actual cash transaction losses incurred, and changes in other assets and liabilities. Significant non-cash expenses for the period include depreciation and amortization and stock-based compensation. The cash impact from actual transaction losses incurred during a period is reflected as a negative impact to changes in other assets and liabilities in cash from operating activities. The expenses recognized during the period for provision for loan losses are estimates of probable incurred losses on our consumer and merchant credit products (excluding the U.S. consumer credit portfolio from and after November 2017). Actual charge-offs of receivables related to our consumer and merchant credit products (excluding the U.S. consumer credit portfolio from and after November 2017) have no impact on cash from operating activities.

We generated cash from operating activities of \$2.5 billion in 2017 due primarily to operating income of approximately \$2.1 billion. Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation were approximately \$1.5 billion during 2017. Adjustments for non-cash expenses related to the provision for transaction and loan losses were approximately \$1.0 billion during 2017. The cash generated from operating activities was negatively impacted by adjustments for non-cash expenses related to deferred income taxes of approximately \$1.3 billion during 2017. The cash generated from operating activities was negatively impacted by changes in working capital primarily related to loans and interest receivable held for sale, net of \$1.3 billion due to changes in the presentation of originations and collections on loans within the U.S. consumer credit portfolio subsequent to its designation as held for sale in November 2017, which are now presented in operating activities instead of investing activities, offset by changes in other assets and liabilities of \$634 million. Collections on the U.S. consumer credit portfolio for originations that occurred prior to November 2017 will continue to be reflected in investing activities.

We generated cash from operating activities of \$3.2 billion in 2016 due primarily to operating income of approximately \$1.6 billion. Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation (including excess tax benefits from stock-based compensation) were approximately \$1.1 billion during 2016. Adjustments for non-cash expenses related to the provision for transaction and loan losses were approximately \$1.1 billion during 2016. The cash generated from operating activities was negatively impacted by changes in working capital primarily related to transaction loss allowance for cash losses, net.

We generated cash from operating activities of \$2.5 billion in 2015 due primarily to operating income of approximately \$1.5 billion. Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation (including excess tax benefits from stock-based compensation) were approximately \$928 million during 2015. Adjustments to non-cash expenses related to transaction and loan losses were approximately \$809 million during 2015. The cash generated from operating activities was negatively impacted by changes in working capital primarily related to actual transaction losses paid during the period. Additional uses of cash impacting cash generated from operating activities include net cash outflows relating to settlement of eBay payables and receivables of approximately \$96 million and increases in accounts receivable of approximately \$22 million.

Cash paid for income taxes in 2017, 2016 and 2015 was \$117 million, \$48 million and \$216 million, respectively.

## INVESTING ACTIVITIES

Cash flows from investing activities includes purchases, maturities and sales of investments, cash paid for acquisitions, purchases and sales of property and equipment, changes in principal loans receivable, funds receivable and customer accounts. For periods prior to the distribution, it also includes notes payable and receivable from eBay.

The net cash used in investing activities of \$5.4 billion in 2017 was due primarily to purchases of investments of \$19.4 billion, increase in funds receivable and customer accounts of \$2.5 billion including the reclassification of \$700 million of European customer balances held in our Luxembourg banking subsidiary as cash and cash equivalents, changes in principal loans receivable portfolio (net of collections) originated through our consumer and merchant credit products excluding originations and collections pertaining to the U.S. consumer credit portfolio from and after November 2017 which are now presented in operating activities, of \$920 million, acquisitions, net of cash acquired of \$323 million, and purchases of property and equipment of \$667 million. These net cash outflows were offset by maturities and sales of investments of \$18.5 billion. Collections on the U.S. consumer credit portfolio for originations that occurred prior to November 2017 will continue to be reflected in investing activities.

The net cash used in investing activities of \$5.0 billion in 2016 was due primarily to purchases of investments of \$21.0 billion, increases in our loan receivable portfolio (net of collections) originated through our PayPal credit products of \$1.5 billion, purchases of property and equipment of \$669 million and net increases in funds receivable from customers and customer accounts of \$176 million, including the reclassification of \$800 million of European customer balances held in our Luxembourg banking subsidiary as cash and cash equivalents. These net cash outflows were offset by maturities and sales of investments of \$18.4 billion.

The net cash used in investing activities of \$8.0 billion in 2015 was due primarily to purchases of investments of \$21.6 billion, acquisitions, net of cash acquired of \$1.2 billion, increases in our loan receivable portfolio (net of collections) originated through our PayPal credit products of \$819 million, and purchases of property and equipment of \$722 million. These net cash outflows were offset in part by maturities and sales of investments of \$16.1 billion and net cash inflows relating to receivables from eBay of \$575 million.

## FINANCING ACTIVITIES

Cash flows from financing activities includes proceeds from issuance of common stock, purchases of treasury stock, tax withholdings related to net share settlements of equity awards, borrowings net of repayments under financing arrangements, funds payable and amounts due to customers, and excess tax benefits from stock based compensation (for periods prior to 2017). For periods prior to the distribution, it also includes contribution from eBay.

The net cash provided by financing activities of \$4.1 billion in 2017 was due primarily to increases in funds payable and amounts due to customers of \$4.3 billion and borrowings of \$1.0 billion, partially offset by repayment of a loan of \$170 million assumed in connection with our acquisition of Swift Financial, the repurchase of \$1.0 billion of our common stock under our stock repurchase programs and tax withholdings related to net share settlement of equity awards of \$166 million.

The net cash provided by financing activities of \$2.0 billion in 2016 was due primarily to increases in funds payable and amounts due to customers of \$3.0 billion, offset in part by the repurchase of \$995 million of our common stock under our stock repurchase program.

The net cash provided by financing activities of \$4.7 billion in 2015 was due primarily to a contribution of approximately \$3.9 billion of cash from eBay and increases in funds payable and amounts due to customers of \$1.6 billion, offset in part by repayments of borrowings from eBay of \$862 million.



## FREE CASH FLOW

We define free cash flow as cash flows from operating activities less purchases of property and equipment.

Free cash flow was \$1.9 billion in 2017, a decrease of \$625 million from 2016. The decrease in free cash flow during the period was primarily due to lower cash generated from operating activities of \$627 million, which was impacted by the change in presentation from investing activities to operating activities of originations and collections on the U.S. consumer credit portfolio subsequent to its designation as held for sale in November 2017. Free cash flow generated during 2017 was used for repurchasing our common stock under our stock repurchase programs, funding our credit portfolio, acquisitions and general business purposes.

Free cash flow was \$2.5 billion in 2016, an increase of \$665 million from 2015. The increase in free cash flow during the period was primarily due to higher cash generated from operating activities of \$612 million and lower purchases of property and equipment of \$53 million. Free cash flow generated during 2016 was used for funding our credit portfolio, repurchasing our common stock under our stock repurchase program, and general business purposes.

Free cash flow is a non-GAAP financial measure. See “Non-GAAP Financial Information” for information on how we compute free cash flow and a reconciliation to the most directly comparable GAAP financial measure.

## EFFECT OF EXCHANGE RATES ON CASH

The positive effect of currency exchange rates on cash and cash equivalents during 2017 of \$36 million was due to the weakening of the U.S. dollar against certain foreign currencies, primarily the Euro. Currency exchange rates did not have a material impact on cash and cash equivalents in 2016. The negative effect of currency exchange rates on cash and cash equivalents during 2015 of \$44 million was due to the strengthening of the U.S. dollar against certain foreign currencies, primarily the Euro.

## OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2017 and 2016, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

## FUTURE LIQUIDITY AND OBLIGATIONS

As of December 31, 2017, approximately \$26.4 billion of unused credit was available to PayPal Credit account holders compared to \$28.8 billion of unused credit as of December 31, 2016. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit account holders will access their entire available credit at any given point in time. In addition, the individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institution that is the issuer of our U.S. PayPal Credit consumer products based on, among other things, account usage and customer creditworthiness. When a consumer funds a purchase in the U.S. using a PayPal credit product issued by a chartered financial institution, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the receivables related to the consumer loans extended by the chartered financial institution and, as a result of such purchase, bear the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each customer account, we own the related receivable (excluding participation interests sold) and are responsible for all servicing functions related to the account. Upon the closing of the sale of our loans and interest receivables, held for sale, which is expected to occur in the third quarter of 2018, we will no longer purchase receivables related to the U.S. consumer loans extended by the chartered financial institution.

We have certain fixed contractual obligations and commitments that include future estimated payments for general operating purposes. Changes in our business needs, contractual cancellation provisions, fluctuating interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of these payments. The following table summarizes our obligations as of December 31, 2017 that are expected to impact liquidity and cash flow in future periods. We believe we will be able to fund these obligations through our existing cash and investment portfolio and cash expected to be generated from operations.

Payments Due During the Year Ending December 31,	Purchase Obligations	Operating Leases	Transition Tax	Total
	(In millions)			
2018	\$287	\$ 119	\$ —	\$ 406
2019	137	112	127	376
2020	65	82	117	264
2021	4	62	117	183
2022	3	50	117	170
Thereafter	19	130	990	1,139
	\$ 515	\$555	\$1,468	\$2,538



The significant assumptions used in our determination of amounts presented in the above table are as follows:

- Purchase obligation amounts include minimum purchase commitments for advertising, capital expenditures (computer equipment, software applications, engineering development services and construction contracts) and other goods and services entered into in the ordinary course of business.
- Operating lease amounts include minimum rental payments under our non-cancelable operating leases for office and data center facilities. The amounts presented are consistent with contractual terms and are not expected to differ significantly from actual results under our existing leases, unless a substantial change in our headcount needs requires us to expand our occupied space or exit an office facility early.
- Transition Tax represents the one-time mandatory tax on previously deferred foreign earnings under the Tax Act, as further discussed in “Note 17—Income Taxes” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

As we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits, net, the table above does not include \$383 million of such non-current liabilities included in deferred and other tax liabilities recorded on our consolidated balance sheet as of December 31, 2017.

## SEASONALITY

The Company does not experience meaningful seasonality with respect to net revenues. No individual quarter in 2017, 2016 or 2015 accounted for more than 30% of annual net revenue.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The application of U.S. GAAP requires us to make estimates and assumptions about certain items and future events that directly affect our reported financial condition. We have established detailed policies and control procedures to provide reasonable assurance that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to our financial statements. An accounting estimate is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to our financial condition. Senior management has discussed the development, selection and disclosure of these estimates with the Audit, Risk and Compliance Committee of our Board of Directors. Our significant accounting policies, including recent accounting pronouncements, are described in “Note 1—Overview and Summary of Significant Accounting Policies” to the consolidated annual financial statements included elsewhere in this Annual Report on Form 10-K.

A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to assess sensitivity are included to allow users of this report to understand a general direction cause and effect of changes in the estimates and do not represent management’s predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecasted, and estimates require regular review and adjustment.

### Transaction and loan losses

Transaction and loan losses include the expense associated with our customer protection programs, fraud, chargebacks, and credit losses associated with our loans receivable balances. Our transaction and loan losses fluctuate depending on many factors, including: total TPV, macroeconomic conditions, changes to our customer protection programs, the impact of regulatory changes, and the credit quality of loans receivable arising from transactions funded with our PayPal credit products, which include our PayPal Credit consumer product and merchant loans and advances consisting of PayPal Working Capital and Swift business loans and advances to merchant sellers.

We establish allowances for estimated transaction losses arising from processing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery of goods or services, ACH returns, buyer protection program claims, account takeovers, and account overdrafts. Additions to the allowance, in the form of provisions, are reflected in transaction and loan losses in our consolidated statements of income. The allowances are monitored regularly and are updated based on actual claims data reported by our claims processors and other actual data received. The allowances are based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving loss payment patterns, and the mix of transaction and loss types.

We also establish an allowance for loans receivable, which represents our estimate of probable incurred loan losses inherent in our consumer loans receivable and merchant loans and advances. Increases to the allowance for loans receivable are reflected as transaction and loan losses in our consolidated financial statements. This evaluation process is subject to numerous estimates and judgments. In connection with the pending sale of our U.S. consumer credit receivables portfolio to Synchrony Bank, and the designation of that portfolio as held for sale in November 2017, we released corresponding allowances against those loans and interest receivable balances. Such allowances on any newly originated U.S. consumer loan receivables from and after November

2017 will not be established. Adjustments to the cost basis of this portfolio, which are primarily driven by charge offs, are recorded in restructuring and other charges in our consolidated statement of income. For our consumer loan receivables not subject to the sale agreement with Synchrony Bank, consisting primarily of our international consumer receivables, the allowance is primarily based on forecasted principal balance delinquency rates ("roll rates"). Roll rates are the percentage of balances which we estimate will migrate from one stage of delinquency to the next based on our historical experience, as well as external factors such as estimated bankruptcies and levels of unemployment. Roll rates are applied to the principal amount of our international consumer receivables for each stage of delinquency, from current to 180 days past the payment due date, in order to estimate the principal loans which have incurred losses and are probable to be charged off. For merchant loans and advances receivable, that includes PayPal Working Capital and Swift business loan and advance products, the allowance is primarily based on principal balances, forecasted delinquency rates and recoveries through the use of a vintage-based loss forecasting model.

The determination of delinquency, from current to 180 days past due, for principal balances related to merchant loans and advances is based on the current expected repayment period of the loan or advance and interest or fixed fee as compared to the original expected repayment period. For PayPal Working Capital product we calculate the repayment rate based on the merchant's expected future payment volume such that repayment of the advance and fixed fee is typically expected to occur within 9 to 12 months from the date of the loan or advance. On a regular basis, we recalculate the repayment period based on the actual repayment activity on the receivable. As such, actual repayment periods are dependent on actual payment processing volumes.

The allowance for loss against the interest receivable is primarily determined by applying historical average customer account roll rates to the interest receivable balance in each stage of delinquency to project the value of accounts that have incurred losses and are probable to be charged off. The allowance for fees receivable is primarily based on fee balances, forecasted delinquency rates and recoveries through the use of a vintage-based loss forecasting model. Increases to the allowance for fees receivable is recognized as a reduction in deferred revenues included in other current liabilities in our consolidated balance sheet.

We charge off consumer loan receivable balances in the month in which a customer balance becomes 180 days past the payment due date. We charge off the PayPal Working Capital receivable when the updated repayment period is 180 days past the original expected repayment period and the merchant has not made a payment in the last 60 days. We also charge off the receivable when the updated repayment period is 360 days past the original expected repayment period regardless of whether or not the merchant has made a payment within the last 60 days. Bankrupt accounts are charged off within 60 days of receiving notification of bankruptcy. Loans receivable past the payment due date continue to accrue interest until such time as they are charged off, with the portion of the reserve related to the interest receivable balance classified as a reduction of revenue for international consumers and recorded in restructuring and other charges for the U.S. consumer receivables, in our consolidated statement of income. For Swift business loan and advance products, we charge off the receivable when the repayments are 180 days past our expectation of repayments. Bankrupt accounts are charged off within 60 days of receiving notification of bankruptcy. The provision for loan losses is recognized in transaction and loan losses. Charge-offs that are recovered are recorded as a reduction to our allowance for loans and interest receivable.

Determining appropriate allowances for these losses is an inherently uncertain process and ultimate losses may vary from the current estimates. We regularly update our allowance estimates as new facts become known and events occur that may impact the settlement or recovery of losses. The allowances are maintained at a level we deem appropriate to adequately provide for losses incurred at the balance sheet date. Based on our results for the year ended December 31, 2017, an aggregate ten percent increase in our transaction and loan loss rate would negatively impact transaction and loan losses by approximately \$101 million.

### Accounting for Income Taxes

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective government taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and adjust the balances as new information becomes available. Our income tax rate is significantly affected by the tax rates that apply to our foreign earnings. In addition to local country tax laws and regulations, our income tax rate depends on the extent that our foreign earnings are taxed by the U.S. through new provisions under the Tax Act such as the new GILTI tax and BEAT or as a result of our indefinite reinvestment assertion. Indefinite reinvestment is determined by management's judgment about and intentions concerning our future operations.

Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates that are based on a number of factors, including our historical experience and short range and long-range business forecasts. To the extent deferred tax assets are not expected to be realized, we record a valuation allowance.

We recognize and measure uncertain tax positions in accordance with GAAP, pursuant to which we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. GAAP further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter in which such change occurs. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited by the relevant tax authorities and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes are adequate such that we reflect the benefits more likely than not to be sustained in an examination. We adjust these reserves, as well as the related interest, where appropriate in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Based on our results for the year ended December 31, 2017, a one-percentage point increase in our effective tax rate would have resulted in an increase in our income tax expense of approximately \$22 million.

### Loss Contingencies

We are currently involved in various claims, legal proceedings and investigations of potential operating violations by regulatory oversight authorities. We regularly review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim, legal proceeding or potential regulatory violation is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and whether an exposure is reasonably estimable. Our judgments are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims, litigation or other violation and may revise our estimates. Due to the inherent uncertainties of the legal and regulatory process in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes.

### Revenue Recognition

Application of the various accounting principles in U.S. GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Specifically, the determination of whether we are a principal to a transaction (gross revenue) or an agent (net revenue) can require considerable judgment. Further, we provide incentive payments to consumers and merchants, which require judgment to determine whether the payments should be recorded as a reduction to gross revenue. Changes in judgments with respect to these assumptions and estimates could impact the amount of revenue recognized.

### Valuation of Goodwill and Intangibles

The valuation of assets acquired in a business combination and asset impairment reviews require the use of significant estimates and assumptions. The acquisition method of accounting for business combinations requires us to estimate the fair value of assets acquired, liabilities assumed, and any non-controlling interest in an acquired business to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Impairment testing for assets, other than goodwill and indefinite-lived intangible assets, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

We evaluate goodwill and intangible assets for impairment on an annual basis, or sooner if indicators of impairment exist. Under the Financial Accounting Standards Board ("FASB") guidance, the evaluation of indefinite-lived intangible assets for impairment allows for a qualitative assessment to be performed, which is similar to the FASB guidance for evaluating goodwill for impairment. In performing these qualitative assessments, we consider relevant events and conditions, including but not limited to: macroeconomic trends, industry and market conditions, overall financial performance, cost factors, company-specific events, legal and regulatory factors and our market capitalization. If the qualitative assessments indicate that it is more likely than not that the fair value of the reporting unit or indefinite-lived intangible assets are less than their carrying amounts, we must perform a quantitative impairment test.

Under the quantitative impairment test, if the carrying amount of the reporting unit goodwill or indefinite-lived intangible asset exceeds the implied fair value of the reporting unit goodwill or indefinite-lived intangible asset, an impairment loss is recorded in the statement of income. Measurement of the fair value of a reporting unit is based on one or more of the following fair value

measures: amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties, using present value techniques of estimated future cash flows, or using valuation techniques based on multiples of earnings or revenue, or a similar performance measure.

## Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates and equity price risk. Management establishes and oversees the implementation of policies governing our investing, funding, and foreign currency derivative activities in order to mitigate market risks. We monitor risk exposures on an ongoing basis.

### INTEREST RATE RISK

We are exposed to interest rate risk relating to our investment portfolio and from interest-rate sensitive assets underlying the customer balances we hold on our consolidated balance sheet as customer accounts. We seek to reduce earnings volatility that may result from changes in interest rates.

As of December 31, 2017 and 2016, approximately 39% and 25%, respectively, of our total cash and investment portfolio was held in cash and cash equivalents. The assets underlying the customer balances we hold on our consolidated balance sheet as customer accounts are maintained in interest and non-interest bearing bank deposits, time deposits, U.S. and foreign government and agency securities and corporate debt securities. We classify the assets underlying the customer balances as current based on their purpose and availability to fulfill our direct obligation under amounts due to customers. We seek to preserve principal while holding eligible liquid assets, as defined by applicable regulatory requirements and commercial law in the jurisdictions where we operate, equal to at least 100% of the aggregate amount of all customer balances. We do not pay interest on amounts due to customers.

In the fourth quarter of 2017, we entered into an unsecured \$3.0 billion, 364 day delayed-draw term loan credit facility, which is available in up to three borrowings ("2017 Credit Agreement"). In the third quarter of 2015, we entered into a \$2.0 billion senior unsecured credit facility maturing in 2020 ("2015 Credit Agreement"). The company maintains uncommitted credit facilities in various regions throughout the world, aggregating to approximately \$250 million.

Borrowings under the 2017 Credit Agreement and 2015 Credit Agreement, if any, bear interest at floating rates. As a result, we will be exposed to fluctuations in interest rates to the extent of our borrowings. As of December 31, 2017, \$1.0 billion was outstanding under the 2017 Credit Agreement at an interest rate of 2.78% (one month LIBOR plus a margin of 1.125%). Accordingly, at December 31, 2017, \$2.0 billion of borrowing capacity was available for the purposes permitted by the 2017 Credit Agreement, subject to customary conditions to borrowing. As of December 31, 2017, no borrowings or letters of credit were outstanding under the 2015 Credit Agreement or uncommitted facilities.

Interest rates may also adversely impact our customers' spending levels and ability and willingness to pay outstanding amounts owed to us. Higher interest rates often lead to higher payment obligations by customers to us and other lenders under mortgage, credit card and other consumer and merchant loans, which may reduce our customers' ability to remain current on their obligations to us and therefore lead to increased delinquencies, charge-offs and allowance for loan and interest receivable, which could have an adverse effect on our net income.

A 100 basis point increase in interest rates would not have had a material impact on our financial assets or liabilities at December 31, 2017 and 2016.

### FOREIGN CURRENCY RISK

We have significant operations internationally that are denominated in foreign currencies, primarily the British Pound, Euro, Australian Dollar and Canadian Dollar, subjecting us to foreign currency risk which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues and costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services. Our cash flows, results of operations and certain of our intercompany balances that are exposed to foreign exchange rate fluctuations may differ materially from expectations, and we may record significant gains or losses due to foreign currency fluctuations and related hedging activities. We are generally a net receiver of foreign currencies and therefore benefit from a weakening of the U.S. dollar, and are adversely affected by a strengthening of the U.S. dollar, relative to foreign currencies.

We have a foreign exchange exposure management program designed to identify material foreign currency exposures, manage these exposures and reduce the potential effects of currency fluctuations on our reported consolidated cash flows and results of operations through the execution of foreign currency exchange contracts. These foreign currency exchange contracts are accounted for as derivative instruments; for additional details related to our foreign currency exchange contracts, please see "Note 8—Derivative Instruments" to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

We use foreign exchange forward contracts to protect our forecasted U.S. dollar-equivalent earnings from adverse changes in foreign currency exchange rates. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse currency exchange rate movements. We designate these contracts as cash flow hedges for accounting purposes. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income ("AOCI") and subsequently reclassified into revenue in the same period the forecasted transaction affects earnings. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that changes in exchange rates of 20% for all currencies could be experienced in the near term. If the U.S. dollar weakened by 20% at December 31, 2017 and 2016, the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately \$536 million and \$341 million lower, respectively. If the U.S. dollar strengthened by 20% at December 31, 2017 and 2016, the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately \$536 million and \$341 million higher, respectively.

We have an additional foreign exchange management program whereby we use foreign currency exchange contracts to offset the foreign currency exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. These contracts are not designated as hedging instruments and reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities. The foreign currency gains and losses on our assets and liabilities are recorded in other income (expense), net, and are offset by the gains and losses on the foreign currency exchange contracts.

Adverse changes in exchange rates of 20% for all currencies would have resulted in an adverse impact on income before income taxes of approximately \$243 million and \$160 million at December 31, 2017 and 2016, respectively, without considering the offsetting effect of hedging. Foreign currency exchange contracts in place as of December 31, 2017 would have positively impacted income before income taxes by approximately \$211 million, resulting in a net negative impact of approximately \$32 million. Foreign currency exchange contracts in place as of December 31, 2016 would have positively impacted income before income taxes by approximately \$128 million, resulting in a net negative impact of approximately \$32 million. These reasonably possible adverse changes in currency exchange rates of 20% were applied to total monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries at the balance sheet dates to compute the adverse impact these changes would have had on our income before income taxes in the near term.

## EQUITY PRICE RISK

As of December 31, 2017 and 2016, our cost method investments totaled \$88 million and \$50 million, respectively, which represented approximately 1% of our total cash and investment portfolio and were primarily related to cost method investments in privately held companies. As of December 31, 2017 and 2016, we did not hold any marketable equity instruments. We review our investments for impairment when events and circumstances indicate a decline in fair value of such assets below carrying value is other-than-temporary. Our analysis includes a review of recent operating results and trends, recent sales and acquisitions of the securities in which we have invested and other publicly available data.

## Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements covering the years ended December 31, 2017, 2016 and 2015 and accompanying notes listed in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K are included elsewhere in this report.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9a. Controls and Procedures

**Evaluation of disclosure controls and procedures.** Based on the evaluation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), our principal executive officer and our principal financial officer have concluded that as of December 31, 2017, the end of the period covered by this report, our disclosure controls and procedures were effective.

**Management's report on internal control over financial reporting.** Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

**Changes in internal controls over financial reporting.** There were no changes in our internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Item 9b. Other Information

Not applicable.

## Part III

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### Item 10. Directors, Executive Officers and Corporate Governance

Incorporated by reference from our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2017.

#### **CODE OF ETHICS, GOVERNANCE GUIDELINES AND COMMITTEE CHARTERS**

We have adopted a Code of Business Conduct and Ethics that applies to all PayPal employees and directors. We have also adopted a Code of Ethics for Senior Financial Officers that applies to our senior financial officers, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics for Senior Financial Officers is included in our Code of Business Conduct and Ethics posted on our website at <https://investor.paypal-corp.com/corporate-governance.cfm>. We will post any amendments to or waivers from the Code of Ethics for Senior Financial Officers at that location.

### Item 11. Executive Compensation

Incorporated by reference from our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2017.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference from our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2017.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference from our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2017.

### Item 14. Principal Accounting Fees and Services

Incorporated by reference from our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2017.



## Part IV

### Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

	Page Number
1. Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	56
Consolidated Balance Sheets	57
Consolidated Statements of Income	58
Consolidated Statements of Comprehensive Income	59
Consolidated Statements of Stockholders' Equity	60
Consolidated Statements of Cash Flows	61
Notes to Consolidated Financial Statements	62
2. Financial Statement Schedule	
Schedule II—Valuation and Qualifying Accounts	106
All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.	
3. Exhibits Required by Item 601 of Regulation S-K	
The information required by this Item is set forth in the Index of Exhibits that precedes the signature page of this Annual Report.	

# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PayPal Holdings, Inc.

## OPINIONS ON THE FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the accompanying consolidated balance sheets of PayPal Holdings, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2017 appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

## BASIS FOR OPINIONS

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's report on internal control over financial reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

## DEFINITION AND LIMITATIONS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 7, 2018

We have served as the Company's auditor since 2000.

# PayPal Holdings, Inc.

## Consolidated Balance Sheets

	As of December 31,	
	2017	2016
	(In millions, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,883	\$ 1,590
Short-term investments	2,812	3,385
Accounts receivable, net	283	214
Loans and interest receivable, net of allowances of \$129 in 2017 and \$339 in 2016	1,314	5,348
Loans and interest receivable, held for sale	6,398	—
Funds receivable and customer accounts	18,242	14,363
Prepaid expenses and other current assets	713	833
Total current assets	32,645	25,733
Long-term investments	1,961	1,539
Property and equipment, net	1,528	1,482
Goodwill	4,339	4,059
Intangible assets, net	168	211
Other assets	133	79
Total assets	\$40,774	\$33,103
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 257	\$ 192
Notes payable	1,000	—
Funds payable and amounts due to customers	19,742	15,163
Accrued expenses and other current liabilities	1,781	1,459
Income taxes payable	83	64
Total current liabilities	22,863	16,878
Deferred tax liability and other long-term liabilities	1,917	1,513
Total liabilities	24,780	18,391
Commitments and contingencies (Note 13)		
Equity:		
Common stock, \$0.0001 par value; 4,000 shares authorized; 1,200 and 1,207 shares outstanding as of December 31, 2017 and 2016, respectively	—	—
Treasury stock at cost, 47 and 27 shares as of December 31, 2017 and 2016, respectively	(2,001)	(995)
Additional paid-in-capital	14,314	13,579
Retained earnings	3,823	2,069
Accumulated other comprehensive income (loss)	(142)	59
Total equity	15,994	14,712
Total liabilities and equity	\$40,774	\$33,103

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

# PayPal Holdings, Inc.

## Consolidated Statements of Income

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions, except for per share amounts)</b>		
Net revenues	\$13,094	\$10,842	\$9,248
Operating expenses:			
Transaction expense	4,419	3,346	2,610
Transaction and loan losses	1,011	1,088	809
Customer support and operations	1,364	1,267	1,110
Sales and marketing	1,128	969	937
Product development	953	834	792
General and administrative	1,155	1,028	873
Depreciation and amortization	805	724	608
Restructuring and other charges	132	—	48
Total operating expenses	10,967	9,256	7,787
Operating income	2,127	1,586	1,461
Other income (expense), net	73	45	27
Income before income taxes	2,200	1,631	1,488
Income tax expense	405	230	260
Net income	\$ 1,795	\$ 1,401	\$ 1,228
Net income per share:			
Basic	\$ 1.49	\$ 1.16	\$ 1.00
Diluted	\$ 1.47	\$ 1.15	\$ 1.00
Weighted average shares:			
Basic	1,203	1,210	1,222
Diluted	1,221	1,218	1,229

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

# PayPal Holdings, Inc.

## Consolidated Statements of Comprehensive Income

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		
Net income	\$1,795	\$1,401	\$1,228
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation	43	(15)	(37)
Unrealized (losses) gains on investments, net	(7)	11	(16)
Tax benefit (expense) on unrealized gains/losses on investments, net	1	(1)	3
Change in unrealized gains/losses on hedging activities, net	(242)	74	(69)
Tax benefit (expense) on unrealized gains/losses on hedging activities, net	4	(1)	—
Other comprehensive (loss) income, net of tax	(201)	68	(119)
Comprehensive income	\$1,594	\$1,469	\$1,109

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

# PayPal Holdings, Inc.

## Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Treasury Stock	Additional Paid-In Capital	Net Parent Investment	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
(In millions)							
Balances at December 31, 2014	1,218	\$ —	\$ —	\$ 8,138	\$ 110	\$ —	\$ 8,248
Net income	—	—	—	560	—	668	1,228
Net transfers from eBay	—	—	—	4,143	—	—	4,143
Foreign currency translation	—	—	—	—	(37)	—	(37)
Unrealized losses on investments, net	—	—	—	—	(16)	—	(16)
Tax benefit on unrealized losses on investments, net	—	—	—	—	3	—	3
Change in unrealized gains (losses) on hedging activities, net	—	—	—	—	(69)	—	(69)
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	6	—	64	—	—	—	64
Stock-based compensation	—	—	185	—	—	—	185
Stock-based compensation tax impact	—	—	10	—	—	—	10
Reclassification of net parent investment in connection with separation	—	—	12,841	(12,841)	—	—	\$ —
Balances at December 31, 2015	1,224	\$ —	\$13,100	\$ —	\$ (9)	\$ 668	\$13,759
Net income	—	—	—	—	—	1,401	1,401
Foreign currency translation	—	—	—	—	(15)	—	(15)
Unrealized losses on investments, net	—	—	—	—	11	—	11
Tax benefit on unrealized losses on investments, net	—	—	—	—	(1)	—	(1)
Change in unrealized gains/losses on hedging activities, net	—	—	—	—	74	—	74
Tax expense on unrealized gains on hedging activities, net	—	—	—	—	(1)	—	(1)
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	10	—	(10)	—	—	—	(10)
Common stock repurchased	(27)	(995)	—	—	—	—	(995)
Stock-based compensation	—	—	449	—	—	—	449
Stock-based compensation tax impact	—	—	40	—	—	—	40
Balances at December 31, 2016	1,207	\$ (995)	\$13,579	\$ —	\$ 59	\$2,069	\$14,712
Net income	—	—	—	—	—	1,795	1,795
Foreign currency translation	—	—	—	—	43	—	43
Unrealized losses on investments, net	—	—	—	—	(7)	—	(7)
Tax benefit on unrealized losses on investments, net	—	—	—	—	1	—	1
Change in unrealized gains/losses on hedging activities, net	—	—	—	—	(242)	—	(242)
Tax expense on unrealized gains on hedging activities, net	—	—	—	—	4	—	4
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	13	—	(21)	—	—	—	(21)
Common stock repurchased	(20)	(1,006)	—	—	—	—	(1,006)
Stock-based compensation	—	—	756	—	—	—	756
Income tax adjustment for intra entity transfers	—	—	—	—	—	(41)	(41)
Balances at December 31, 2017	1,200	\$ (2,001)	\$14,314	\$ —	\$ (142)	\$3,823	\$15,994

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

# PayPal Holdings, Inc.

## Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2017	2016	2015
	(In millions)		
Cash flows from operating activities:			
Net income	\$ 1,795	\$ 1,401	\$ 1,228
Adjustments:			
Transaction and loan losses	1,011	1,088	809
Depreciation and amortization	805	724	608
Stock-based compensation	733	438	346
Deferred income taxes	(1,299)	52	127
Excess tax benefits from stock-based compensation	—	(40)	(26)
Gain on sale of principal loans receivable held for sale, net	(25)	(24)	(40)
Cost basis adjustments to loans and interest receivable held for sale	92	—	—
Changes in assets and liabilities:			
Accounts receivable	12	(77)	(22)
Receivable from eBay	—	—	121
Changes in loans and interest receivable held for sale, net	(1,308)	24	14
Transaction loss allowance for cash losses, net	(817)	(643)	(493)
Other current assets and non-current assets	(188)	(145)	(384)
Accounts payable	62	11	12
Payable to eBay	—	—	(217)
Income taxes payable	19	69	40
Other current liabilities and non-current liabilities	1,639	280	423
Net cash provided by operating activities	2,531	3,158	2,546
Cash flows from investing activities:			
Purchases of property and equipment	(667)	(669)	(722)
Proceeds from sales of property and equipment	—	—	26
Changes in principal loans receivable, net	(920)	(1,523)	(819)
Purchases of investments	(19,418)	(21,041)	(21,626)
Maturities and sales of investments	18,450	18,429	16,148
Acquisitions, net of cash acquired	(323)	(19)	(1,225)
Funds receivable and customer accounts	(2,480)	(176)	(395)
Notes payable and receivable from eBay	—	—	575
Net cash used in investing activities	(5,358)	(4,999)	(8,038)
Cash flows from financing activities:			
Proceeds from issuance of common stock	144	109	75
Purchases of treasury stock	(1,006)	(995)	—
Excess tax benefits from stock-based compensation	—	40	26
Contribution from eBay	—	—	3,858
Tax withholdings related to net share settlements of restricted stock units and restricted stock awards	(166)	(118)	(18)
Borrowings under financing arrangements, net of repayments	820	(21)	(862)
Funds payable and amounts due to customers	4,292	3,023	1,649
Net cash provided by financing activities	4,084	2,038	4,728
Effect of exchange rate changes on cash and cash equivalents	36	—	(44)
Net increase (decrease) in cash and cash equivalents	1,293	197	(808)
Cash and cash equivalents at beginning of period	1,590	1,393	2,201
Cash and cash equivalents at end of period	\$ 2,883	\$ 1,590	\$ 1,393
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 6	\$ 4	\$ 16
Cash paid for income taxes	\$ 117	\$ 48	\$ 216

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



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements

### Note 1—Overview and Summary of Significant Accounting Policies

#### OVERVIEW AND ORGANIZATION

PayPal Holdings, Inc. ("PayPal," the "Company," "we," "us," or "our") was incorporated in Delaware in January 2015 and is a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide. Our vision is to democratize financial services, as we believe that managing and moving money is a right for all people, not just the affluent. Our goal is to increase our relevance for consumers and merchants to manage and move their money anywhere in the world, anytime, on any platform and using any device. We also facilitate person-to-person payments through our PayPal, Venmo and Xoom products. Our combined payment solutions, including our PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products, compose our proprietary Payments Platform. The terms "we," "our," "us," "the Company," and "PayPal" mean PayPal Holdings, Inc. and, unless otherwise expressly stated or the context requires, its subsidiaries.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. Government regulation impacts key aspects of our business. We are subject to regulations that affect the payments industry in the markets in which we operate. Non-compliance with laws and regulations, increased penalties and enforcement actions related to non-compliance, changes in laws and regulations or their interpretation, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business, results of operations and financial condition.

#### SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation and Principles of Consolidation

On July 17, 2015 (the "distribution date"), PayPal became an independent publicly traded company through the pro rata distribution by eBay Inc. ("eBay") of 100% of the outstanding common stock of PayPal to eBay stockholders (which we refer to as the "separation" or the "distribution"). Each eBay stockholder of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held on the record date. Approximately 1.2 billion shares of PayPal common stock were distributed on July 17, 2015 to eBay stockholders. PayPal's common stock began "regular way" trading under the ticker symbol "PYPL" on the NASDAQ Stock Market on July 20, 2015.

Prior to the separation, eBay transferred substantially all of the assets and liabilities and operations of eBay's payments business to PayPal, which was completed in June 2015 (the "capitalization"). The consolidated financial statements prior to the capitalization were prepared on a stand-alone basis and were derived from eBay's consolidated financial statements and accounting records. The consolidated financial statements reflect our financial position, results of operations, comprehensive income and cash flows as our business was operated as part of eBay prior to the capitalization. Following the capitalization, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All periods presented have been accounted for in conformity with U.S. generally accepted accounting principles ("GAAP").

For periods prior to the capitalization, the consolidated financial statements include expenses associated with real estate and information technology that were previously allocated to the payments business of eBay, and additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to stock-based compensation. The expenses that were incurred by eBay were allocated to us based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. We consider the expense allocation methodology and results to be reasonable for all periods presented. The consolidated financial statements also include certain assets and liabilities that were historically held at the eBay corporate level, but which are specifically identifiable and attributable to us. The consolidated financial position, results of operations and cash flows of PayPal prior to the distribution may not be indicative of our results had we been a separate stand-alone entity throughout the periods presented, nor are the results stated herein indicative of what the Company's financial position, results of operations and cash flows may be in the future. All intercompany transactions and accounts have been eliminated. Transactions between the Company and eBay are included in these consolidated financial statements for all periods presented.

Beginning with the first quarter of 2016, we reclassified certain operating expenses in our consolidated statements of income to better align our external and internal financial reporting. These classification changes relate primarily to real estate and information technology operating expenses that were previously allocated among customer support and operations expense, sales and marketing expense and product development expense. As of the first quarter of 2016, our management did not allocate these operating expenses for internal financial reporting and general management of the business, and we therefore discontinued this allocation for external financial reporting purposes. As a result, starting with the first quarter of 2016, these operating expenses were reported as part of general and administrative expenses. These changes have no impact on the previously reported

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

consolidated net income for prior periods, including total operating expenses, financial position or cash flows for any periods presented, and do not eliminate any of the costs allocated to us by eBay for any periods prior to the separation. Prior period amounts have been reclassified to conform to the current period presentation.

The following table presents the effects of the changes on the presentation of operating expenses to the previously reported consolidated statement of income:

(In millions)	Year Ended December 31, 2015		
	As Reported	Adjustments	Revised
Transaction expense	\$2,610	\$ —	\$2,610
Transaction and loan losses	809	—	809
Customer support and operations	1,220	(110)	1,110
Sales and marketing	985	(48)	937
Product development	947	(155)	792
General and administrative	560	313	873
Depreciation and amortization	608	—	608
Restructuring	48	—	48
Total operating expenses	\$7,787	\$ —	\$7,787

The accompanying consolidated financial statements include the financial statements of PayPal and our wholly and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Investments in entities where we hold less than a 20% ownership interest are generally accounted for using the cost method of accounting, and our share of the investees' results of operations is included in other income (expense), net on our consolidated statement of income to the extent dividends are received. Our investment balance is included in long-term investments on our consolidated balance sheet.

In the opinion of management, these consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for fair presentation of the consolidated financial statements for all periods presented. We have evaluated all subsequent events through the date the financial statements were issued. Certain amounts for prior years have been reclassified to conform to the financial statement presentation as of and for the year ended December 31, 2017.

### Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses, including allocations from eBay, during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to provisions for transaction and loan losses, loss contingencies, income taxes, revenue recognition, and the valuation of goodwill and intangible assets. We base our estimates on historical experience and various other assumptions which we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

### Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less when purchased and are composed of primarily bank deposits, government and agency securities and commercial paper.

### Investments

Short-term investments include time deposits, government and agency securities and corporate debt securities with original maturities of greater than three months but less than one year when purchased. Government and agency securities and corporate debt securities are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated tax provisions or benefits.

Long-term investments include corporate debt securities, government and agency securities and cost method investments with maturities exceeding one year. Corporate debt securities and government and agency securities are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated tax provisions or benefits.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

We elect to account for foreign currency denominated available-for-sale investments underlying funds receivable and customer accounts, short-term investments and long-term investments under the fair value option as further discussed in “Note 5—Funds Receivable and Customer Accounts” and “Note 6—Investments.” The changes in fair value related to initial measurement and subsequent changes in fair value are included in earnings as a component of other income (expense), net.

Our cost method investments consist of investments in privately held companies where we do not have the ability to exercise significant influence, or have control over the investee. These investments are recorded at cost and are subject to periodic tests for other-than-temporary impairment.

We assess whether an other-than-temporary impairment loss on our investments has occurred due to declines in fair value or other market conditions. If any impairment is considered other-than-temporary, we write down the investment to its fair value and record the corresponding charge through other income (expense), net in our consolidated statements of income. With respect to our debt securities, this assessment takes into account the severity and duration of the decline in value, our intent to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost basis, and whether we expect to recover the entire amortized cost basis of the security (that is, whether a credit loss exists).

### Loans and interest receivable, held for sale

In November 2017, we reached an agreement to sell our U.S. consumer credit receivables portfolio to Synchrony Bank. Historically, this portfolio was reported as outstanding principal balances, net of any participation interest sold and pro-rata allowances, including unamortized deferred origination costs and estimated collectible interest and fees. Upon approval of the decision to sell these receivables from our Board of Directors, the portfolio was reclassified as held for sale, and recorded at the lower of cost or fair value, determined on an aggregate basis. Following the closing of this transaction, which is expected to occur in the third quarter of 2018, Synchrony Bank will become the exclusive issuer of the PayPal Credit online consumer financing program in the U.S., and we will no longer hold an ownership interest in the receivables generated through the program (other than charged off receivables). This transaction will be accounted for as a sale, and the receivables will no longer be reported on our consolidated financial statements.

Loans and interest receivable, held for sale, represents consumer receivables originated under PayPal credit consumer accounts that are subject to the sale agreement with Synchrony Bank. Until the transaction with Synchrony Bank closes, we will continue to work with independent chartered financial institutions to extend credit to U.S. consumers using our PayPal credit product. We purchase the related receivables extended by an independent chartered financial institution and are responsible for the related servicing functions. During the years ended December 31, 2017 and 2016, we purchased approximately \$8.7 billion and \$7.4 billion, respectively, in U.S. consumer credit receivables.

As part of the arrangements with the independent chartered financial institutions in the U.S., we sell back a participation interest in the pool of consumer receivables outstanding under PayPal Credit consumer accounts. For this arrangement, gains or losses on the sale of the participation interest are not material as the carrying amount of the participation interest sold approximates the fair value at time of transfer. However, we have a separate arrangement with certain investors under which we sell to these investors a participation interest in certain consumer loans receivable that we purchased where the consideration received exceeds the carrying amount of the participation interest sold, which results in a gain reflected as net revenues in our consolidated financial statements. The independent chartered financial institution and other investors have no recourse against us related to their participation interests for failure of debtors to pay when due. The participation interests held by the chartered financial institution and other investors have the same priority to the interests held by us and are subject to the same credit, prepayment, and interest rate risk associated with this pool of consumer receivables. All risks of loss are shared pro rata based on participation interests held among all participating stakeholders. We apply a control-oriented, financial-components approach and account for the asset transfer as a sale and derecognize the portion of the participation interest for which control has been surrendered. In connection with its purchase of our U.S. consumer credit receivable portfolio, Synchrony Bank has also agreed to acquire the participation interests held in the pool of consumer receivables held by the chartered financial institution and other investors.

The terms of our consumer relationships require us to submit monthly bills to the consumer detailing loan repayment requirements. The terms also allow us to charge the consumer interest and fees in certain circumstances. Due to the relatively small dollar amount of individual loans and interest receivable, we do not require collateral on these balances.

### Loans and interest receivable, net

Loans and interest receivable, net represents consumer loans not classified as held for sale and merchant receivables originated under our PayPal Working Capital product and Swift merchant loan and advance products. In the U.S., we work with independent chartered financial institutions that extend credit to the consumer or merchant using our PayPal Working Capital product and

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

Swift merchant loan product, and purchase the related receivables extended by the independent chartered financial institutions. During the years ended December 31, 2017 and 2016, we purchased approximately \$1.5 billion and \$1.0 billion, respectively, in credit receivables.

For our consumer credit products outside the U.S., we extend credit through our Luxembourg banking subsidiary. For our merchant credit products outside the U.S., we extend working capital advances in the U.K. through our Luxembourg banking subsidiary, and we extend working capital loans in Australia through an Australian subsidiary.

As part of our arrangements with independent chartered financial institutions in the U.S., we sell back a participation interest in the pool of merchant receivables outstanding under the PayPal Working Capital program for merchants. For this arrangement, gains or losses on the sale of the participation interest are not material as the carrying amount of the participation interest sold approximates the fair value at time of transfer. The independent chartered financial institution has no recourse against us related to their participation interests for failure of debtors to pay when due. The participation interests held by the chartered financial institution and other investors have the same priority to the interests held by us and are subject to the same credit, prepayment, and interest rate risk associated with this pool of merchant receivables. All risks of loss are shared pro rata based on participation interests held among all participating stakeholders. We apply a control-oriented, financial-components approach and account for the asset transfer as a sale and derecognize the portion of the participation interest for which control has been surrendered.

Loans, advances, interest and fees receivable are reported at their outstanding principal balances, net of any participation interest sold and pro-rata allowances, including unamortized deferred origination costs and estimated collectible interest and fees. We maintain the servicing rights for the entire pool of consumer and merchant receivables outstanding and receive a fee approximating the fair value for servicing the assets underlying the participation interest sold.

### Allowance for loans and interest receivable

In connection with the pending sale of our U.S. consumer credit receivables to Synchrony Bank, and the designation of that portfolio as held for sale, we reversed the corresponding allowances against those loans and interest receivable balances. Such allowances on any newly originated U.S. consumer loans and interest receivables held for sale will not be established. Adjustments to the cost basis of this portfolio, which are primarily driven by charge-offs, will be recorded in restructuring and other charges in our consolidated statement of income.

The allowance for loans and interest receivable represents management's estimate of incurred losses inherent in our portfolio of loans and receivables, net. Increases to the allowance for loans receivables are reflected as transaction and loan losses in our consolidated financial statements. The evaluation process to assess the adequacy of allowances is subject to numerous estimates and judgments.

For our consumer loans receivable not classified as held for sale, the allowance is primarily based on forecasted principal balance delinquency rates ("roll rates"). Roll rates are the percentage of balances which we estimate will migrate from one stage of delinquency to the next based on our historical experience, as well as external factors such as estimated bankruptcies and levels of unemployment. Roll rates are applied to the principal amount of our consumer receivables for each stage of delinquency, from current to 180 days past the payment due date, in order to estimate the principal loans which have incurred losses and are probable to be charged off.

For merchant loans and advances receivable, the allowance is primarily based on principal balances, forecasted delinquency rates and recoveries through the use of a vintage-based loss forecasting model. The determination of delinquency, from current to 180 days past due, for principal balances related to merchant receivables outstanding is based on the current expected repayment period of the loan or advance and interest or fixed fee as compared to the original expected repayment period.

For PayPal Working Capital loans and advances, we calculate the repayment rate based on the merchant's expected future payment volume such that repayment of the advance and fixed fee is typically expected to occur within 9 to 12 months from the date of the advance. On a regular basis, we recalculate the repayment period based on the actual repayment activity on the receivable. As such, actual repayment periods are dependent on actual payment processing volumes.

The allowance for loss against interest receivable is primarily determined by applying historical average customer account roll rates to the interest receivable balance in each stage of delinquency to project the value of accounts that have incurred losses and are probable to be charged off. The allowance for fees receivable is primarily based on fee balances, forecasted delinquency rates and recoveries through the use of a vintage-based loss forecasting model. Increases to the allowance for interest receivable are reflected as a reduction of net revenues in our consolidated statement of income. Increases to the allowance for fees receivable are recognized as a reduction in deferred revenues included in other current liabilities in our consolidated balance sheet.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

We charge off consumer loan receivable balances in the month in which a customer balance becomes 180 days past the payment due date. We charge off PayPal Working Capital merchant receivable when the updated repayment period is 180 days past the original expected repayment period and the merchant has not made a payment in the last 60 days. We also charge off the PayPal Working Capital merchant receivable when the updated repayment period is 360 days past the original expected repayment period regardless of whether or not the merchant has made a payment within the last 60 days. We charge off Swift merchant loans and advances when the repayments are 180 days past our expectation of repayments.

Bankrupt accounts are charged off within 60 days after receipt of notification of bankruptcy. Consumer loans receivable past the payment due date continue to accrue interest until such time as they are charged off. Charge-offs that are recovered are recorded as a reduction to our allowance for loans and interest receivable.

### Customer accounts

We hold all customer balances, both in the U.S. and internationally, as direct claims against us which are reflected on our consolidated balance sheet as a liability classified as amounts due to customers. Certain jurisdictions where PayPal operates require us to hold eligible liquid assets, as defined by the regulators in these jurisdictions, equal to at least 100% of the aggregate amount of all customer balances. Therefore, we use the assets underlying the customer balances to meet these regulatory requirements and separately classify the assets as customer accounts in our consolidated balance sheet. We classify the assets underlying the customer balances as current based on their purpose and availability to fulfill our direct obligation under amounts due to customers.

In March 2016, as approved by management and our Luxembourg banking subsidiary Supervisory Board and as permitted within regulations set forth by the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF"), we designated \$800 million of European customer balances held in our Luxembourg banking subsidiary to be used to extend credit to our European customers. In the fourth quarter of 2017, an additional amount of \$700 million of European customer balances held in our Luxembourg banking subsidiary was approved and designated to be used to extend credit to our U.S. consumers. This is consistent with our strategy of diversifying funding sources for our credit business and does not represent a change in our credit business development strategy or risk appetite. These funds were classified as cash and cash equivalents in our consolidated balance sheet on the date of designation and collectively represent approximately 30% of European customer balances potentially available for corporate use by the Company at December 31, 2017 as determined by applying financial regulations maintained by the CSSF. The remaining assets underlying the customer balances remain separately classified as customer accounts in our consolidated balance sheet. We do not commingle these customer accounts with corporate funds and maintain these assets separately in interest and non-interest bearing bank deposits, time deposits, corporate debt securities and U.S. and foreign government and agency securities. See "Note 5—Funds Receivable and Customer Accounts" for additional information related to customer accounts.

Accordingly, we have presented changes in funds receivable and customer accounts as cash flows from investing activities in our consolidated statements of cash flows based on the nature of the activity underlying our customer accounts. We have elected to conform the prior year statement of cash flows to the current period presentation to provide comparability. The following table presents the effects of the changes on the presentation of the statement of cash flows to the previously reported cash flows from investing activities and cash flows from financing activities in the consolidated statement of cash flows for the years ended December 31, 2015. These changes had no impact on the previously reported total net cash flows:

(In millions)	Full Year December 31, 2015		
	As Reported	Adjustments	Revised
<b>Cash flows from investing activities:</b>			
Purchases of investments	\$(7,542)	\$(14,084)	\$(21,626)
Maturities and sales of investments	3,318	12,830	16,148
Funds receivable and customer accounts	—	(395)	(395)
<b>Cash flows from financing activities:</b>			
Funds receivable and customer accounts	(1,649)	1,649	—
<b>Net change</b>	<b>\$(5,873)</b>	<b>\$ —</b>	<b>\$ (5,873)</b>

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Funds receivable and funds payable

Funds receivable and funds payable arise due to the time required to initiate collection from and clear transactions through external payment networks. When customers fund their account using their bank account or a credit card or debit card, or withdraw funds from their PayPal account to their bank account or through a debit card transaction, there is a clearing period before the cash is received or settled, usually one to three business days for U.S. transactions and generally up to five business days for international transactions.

### Property and equipment

Property and equipment consists primarily of computer equipment, software and website development costs, land and buildings and leasehold improvements. Property and equipment are stated at historical cost less accumulated depreciation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets; generally, one to three years for computer equipment and software, including capitalized software and website development costs, three years for furniture and fixtures, up to thirty years for buildings and building improvements, and the shorter of five years or the non-cancelable term of the lease for leasehold improvements.

### Goodwill and intangible assets

Goodwill is tested for impairment at a minimum on an annual basis. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The fair value of the reporting unit is estimated using income and market approaches. The discounted cash flow method, a form of the income approach, uses expected future operating results and a market participant discount rate. The market approach uses comparable company prices and other relevant information generated by market transactions (either publicly traded entities or mergers and acquisitions) to develop pricing metrics to be applied to historical and expected future operating results of the reporting unit. Failure to achieve these expected results, changes in the discount rate or market pricing metrics, may cause a future impairment of goodwill at the reporting unit level. We conducted our annual impairment test of goodwill as of August 31, 2017 and 2016. We determined that no adjustment to the carrying value of goodwill of our reporting unit was required. As of December 31, 2017, we determined that no events occurred or circumstances changed from August 31, 2017 through December 31, 2017 that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Intangible assets consist of customer-related intangible assets, marketing related intangibles, developed technologies and other intangible assets including purchased partner relationships, purchased technology, patents and contractual agreements. Intangible assets are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from one to eight years. No significant residual value is estimated for intangible assets.

### Impairment of long-lived assets

We evaluate long-lived assets (including intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate.

### Allowance for transaction losses and negative customer balances

We are exposed to transaction losses due to credit card and other payment misuse as well as nonperformance of and credit losses from sellers who accept payments through PayPal. We establish an allowance for estimated losses arising from processing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery of goods or services, Automated Clearing House ("ACH") returns, buyer protection program claims, account takeovers, and account overdrafts. This allowance represents an accumulation of the estimated amounts necessary to provide for transaction losses incurred as of the reporting date, including those which we have not yet identified. The allowance is monitored regularly and is updated based on actual claims data reported by our claims processors and other actual data received. The allowance is based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving loss payment patterns, and the mix of transaction and loss types. Additions to the allowance are reflected as transaction and loan losses in our consolidated statement of income. At December 31, 2017 and 2016, the allowance for transaction losses totaled \$92 million and \$78 million, respectively, and was included in accrued expenses and other current liabilities in our consolidated balance sheet.

Negative customer balances occur primarily when there are insufficient funds in a customer's PayPal account to cover charges applied for ACH returns, debit card transactions, merchant-related chargebacks due to nondelivery or unsatisfactory delivery of goods or services. Negative balances can be cured by the customer by adding funds to the account, receiving payments, or through back-up funding sources. We also utilize third-party collection agents. For negative customer balances that are not expected to be



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

cured or otherwise collected, we provide an allowance for uncollectible accounts. The allowance is estimated based on known facts and circumstances, internal factors including our experience with similar cases, and historical trends involving collection and write-off patterns. Negative customer balances are included in other current assets, net of the allowance in our consolidated balance sheet. Adjustments to the allowance for negative customer balances are recorded as a component of transaction and loan loss in our consolidated statement of income. The allowance for negative customer balances was \$174 million and \$144 million at December 31, 2017 and 2016, respectively.

### Derivative instruments

We have significant international revenues and costs denominated in foreign currencies, subjecting our operations to foreign currency risk. We enter into foreign currency exchange contracts that qualify as cash flow hedges, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenue denominated in certain foreign currencies. All outstanding derivatives are recognized in our consolidated balance sheet at fair value. The effective portion of the designated derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and is subsequently reclassified into the financial statement line item in which the hedged item is recorded in the period the forecasted transaction affects earnings.

We also hedge our economic exposure to foreign currency denominated monetary assets and liabilities with foreign currency contracts. The gains and losses on the foreign exchange contracts economically offset transaction gains and losses on certain foreign currency denominated monetary assets and liabilities recognized in earnings. Accordingly, these outstanding non-designated derivatives are recognized in our consolidated balance sheet at fair value, and changes in fair value from these contracts are recorded in other income (expense), net in the consolidated statement of income. Our hedging program is not designed or operated for trading or speculative purposes.

We report cash flows arising from derivative instruments consistent with the classification of cash flows from the underlying hedged items that these derivatives are hedging. Accordingly, the cash flows associated with derivatives designated as cash flow hedges and our non-designated derivatives that hedge foreign currency denominated monetary assets and liabilities are classified in cash flows from operating activities in our consolidated statement of cash flows.

Our derivative instruments expose us to credit risk to the extent counterparties may be unable to meet the terms of the agreements. We seek to mitigate this risk by limiting counterparties to major financial institutions, by spreading the risk across several major financial institutions and by entering into collateral security arrangements. In addition, the potential risk of loss with one counterparty resulting from this type of credit risk is monitored on an ongoing basis. See "Note 8—Derivative Instruments" for additional information related to the derivative instruments.

### Fair value of financial instruments

Our financial assets and liabilities are valued using market prices on both active markets (Level 1) and less active markets (Level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs. As of December 31, 2017 and 2016, we did not have any assets or liabilities requiring measurement at fair value without observable market values that would require a high level of judgment to determine fair value (Level 3). Our financial instruments, including cash, time deposits, accounts receivable, loans and interest receivable, loans and interest receivable held for sale, funds receivable, certain customer accounts, accounts payable, notes payable, and funds payable and amounts due to customers are carried at cost, which approximates their fair value due to the short-term maturity of these instruments.

### Concentrations of risk

Our cash, cash equivalents, accounts receivable, loans and interest receivable, and funds receivable and customer accounts are potentially subject to concentration of credit risk. Cash, cash equivalents and customer accounts are placed with financial institutions that management believes are of high credit quality. In addition, funds receivable are generated primarily with financial institutions or credit card companies which management believes are of high credit quality. We invest our cash, cash equivalents and customer accounts primarily in highly liquid, highly rated instruments which are uninsured. From time to time, we may also have corporate deposit balances with financial services institutions which exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000. As part of our cash management process, we perform periodic evaluations of the relative credit standing of these financial institutions. Our accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. Our loans and interest receivable are derived from consumer and merchant financing activities for customers located in the U.S. and internationally. As of December 31, 2017 and 2016, one customer accounted for 16% and 24% of



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

net accounts receivables, respectively. No customer accounted for more than 10% of net loans receivable as of December 31, 2017 and 2016. During the years ended December 31, 2017, 2016 and 2015, no customer accounted for more than 10% of net revenues. During the years ended December 31, 2017, 2016 and 2015, we earned approximately 20%, 22%, and 26% of revenue from customers on eBay's Marketplaces platform. No other source of revenue represented more than 10% of our revenue.

### Revenue recognition

We earn net revenues primarily from fees charged to customers on the volume of activity processed through our Payments Platform. Net transaction revenues resulting from a payment processing transaction are recognized once the transaction is complete. Based on historical experience, specified credits are made at the time revenue is recognized and recorded as a reduction to revenue. In certain circumstances, we are required to record payments to a customer as a reduction to revenue. These payments to customers primarily originate from certain customer acquisition arrangements.

We also earn net revenues from other value added services, including interest and fees earned on our loans and interest receivable, net and held for sale portfolio, subscription fees, gateway fees, gain on sale of participation interest in certain consumer loans receivable and merchant loans and advances, revenue share we earn through partnerships, interest earned on certain PayPal customer account balances, fees earned through our Paydiant products and other services that we provide to our consumers and merchants. Net revenues earned from other value added services are recognized over the period services are performed and when amounts are deemed to be fixed or determinable. Interest and fees earned on our portfolio of loans and advances receivable are computed and recognized based on contractual interest and fee rates, and are net of any required reserves and amortization of deferred origination costs.

### Advertising expense

We expense the cost of producing advertisements at the time production occurs and expense the cost of communicating advertisements in the period during which the advertising space or airtime is used as sales and marketing expense. Online advertising expenses are recognized based on the terms of the individual agreements, which is generally over the greater of the ratio of the number of impressions delivered over the total number of contracted impressions, on a pay-per-click basis, or on a straight-line basis over the term of the contract. Advertising expense totaled \$438 million, \$350 million and \$303 million for the years ended December 31, 2017, 2016, and 2015, respectively.

### Internal use software and website development costs

Direct costs incurred to develop software for internal use and website development costs are capitalized and amortized generally over an estimated useful life of one to three years and are recorded as depreciation and amortization. PayPal capitalized \$309 million and \$341 million of internally developed software and website development costs for the years ended December 31, 2017 and 2016, respectively. Amortization expense for these capitalized costs was \$262 million, \$208 million and \$166 million for the years ended December 31, 2017, 2016 and 2015, respectively. Costs related to the maintenance of internal use software and website development costs are expensed as incurred.

### Defined contribution savings plans

We have a defined contribution savings plan in the U.S. which qualifies under Section 401(k) of the Internal Revenue Code (the "Code"). Our non-U.S. employees are covered by other savings plans. Expenses related to our defined contribution savings plans are recorded when services are rendered by our employees.

### Stock-based compensation

Prior to the separation, our employees participated in eBay's equity incentive plans, including stock options, restricted stock units and performance-based restricted stock units and the employee stock purchases made under eBay's employee stock purchase plan.

All awards granted under these plans consisted of eBay common shares. Our consolidated statement of income reflected compensation expense for these stock-based plans associated with the portion of eBay's incentive plans in which our employees participated as well as an allocation of stock-based compensation of certain employees of eBay who provided general and administrative services on our behalf.

Upon separation, outstanding awards granted to PayPal employees under eBay's equity incentive plans were converted into PayPal awards under PayPal's equity incentive plans based on a conversion ratio. This conversion ratio was determined as the closing per-share price of eBay shares on the last regular trading session prior to separation divided by the opening per-share price of PayPal shares on the first regular trading session after separation. There was no significant incremental stock-based compensation expense recorded as a result of the share conversions.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

For periods up to separation, we determined compensation expense associated with restricted stock units based on the fair value of eBay's common stock on the date of grant. Following separation, we determine compensation expense associated with restricted stock units based on the fair value of our common stock on the date of grant. We determine compensation expense associated with stock options based on the estimated grant date fair value method using the Black-Scholes valuation model. We generally recognize compensation expense using a straight-line amortization method over the respective vesting period for awards that are ultimately expected to vest. Accordingly, stock-based compensation expense for the years ended December 31, 2017, 2016 and 2015 has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behavior of our employees as well as trends of actual option forfeitures.

### Foreign currency

Most of our foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities of our non-U.S. dollar functional currency subsidiaries are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses of our non-U.S. subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using daily exchange rates. Gains and losses resulting from these translations are recorded as a component of accumulated other comprehensive income. Gains and losses from the remeasurement of foreign currency transactions are recognized as other income (expense), net in our consolidated statement of income.

### Income taxes

We account for income taxes using an asset and liability approach which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. If necessary, the measurement of deferred tax assets is reduced by the amount of any tax benefits that are not expected to be realized based on available evidence. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

### Net income per share

Basic net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for basic and diluted earnings per share for the years ended December 31, 2017 and 2016 was based on the weighted average number of common shares outstanding for the period. The weighted average number of common shares outstanding for basic and diluted earnings per share for the year ended December 31, 2015 was based on the number of common shares distributed on July 17, 2015 for the period prior to distribution and the weighted average number of common shares outstanding for the period beginning after the distribution date. On July 17, 2015, the distribution date, eBay stockholders of record as of the close of business on July 8, 2015 received one share of PayPal common stock for every share of eBay common stock held as of the record date. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding for the period. The dilutive effect of outstanding options and equity incentive awards is reflected in diluted net income per share by application of the treasury stock method. The calculation of diluted net income per share excludes all anti-dilutive common shares.

## RECENT ACCOUNTING PRONOUNCEMENTS

In 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In 2015, the FASB deferred the effective date to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. In 2016, the FASB updated the guidance for reporting revenue gross versus net to improve the implementation guidance on principal versus agent considerations, and for identifying performance obligations and the accounting of intellectual property licenses. In addition, the FASB introduced practical expedients and made narrow scope improvements to the new accounting guidance. We have evaluated the impact of this new standard and have concluded that our financial statements will not be materially impacted upon adoption; however, we will expand certain disclosures as required. We will adopt the guidance on January 1, 2018 on a full retrospective basis, reflecting the application of the new standard in each prior reporting period.

In 2016, the FASB issued new accounting guidance related to the classification and measurement of financial instruments. This new standard makes limited amendments to the guidance in GAAP by requiring equity investments to be measured at fair value with changes in fair value recognized in net income. This new standard also amends the presentation of certain fair value changes

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

for financial liabilities measured at fair value and it amends certain disclosure requirements associated with the fair value of financial instruments. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted in limited situations. We are required to apply the new guidance on a modified retrospective basis to all outstanding instruments, with a cumulative effect adjustment as of the date of adoption and on a prospective basis to all outstanding equity investments without a readily determinable fair value. We will adopt the guidance on January 1, 2018 and prospectively apply the measurement alternative to our cost method investments, which will require us to measure these equity investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer. The amount of the impact to long-term investments will depend on any price changes observed after adoption on January 1, 2018.

In 2016, the FASB issued new accounting guidance related to accounting for leases, which will require lessees to recognize lease assets and lease liabilities on the balance sheet for the rights and obligations created by all leases with terms greater than 12 months. As we are not a lessor, other changes in the standard applicable to lessors do not apply. The standard is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. We will adopt the new standard January 1, 2019, using a modified retrospective basis and anticipate applying the optional practical expedients related to the transition. We are evaluating the impact of adopting this new accounting guidance on our financial statements.

In 2016, the FASB issued new guidance on the measurement of credit losses on financial instruments. Credit losses on loans, trade and other receivables, held-to-maturity debt securities and other instruments will reflect our current estimate of the expected credit losses that generally will result in the earlier recognition of allowances for losses. Credit losses on available-for-sale debt securities with unrealized losses will be recognized as allowances for credit losses limited to the amount by which fair value is below amortized cost. Additional disclosures will be required, including information used to track credit quality by year of origination for most financing receivables. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are required to apply this standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted with impairment of available-for-sale debt securities applied prospectively after adoption. We are evaluating the impact and approach to adopting this new accounting guidance on our financial statements.

In 2016, the FASB issued new guidance on classifying certain cash receipts and cash payments on the statement of cash flows. The new guidance addresses the classification of cash flows related to: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, including bank-owned life insurance, distributions received from equity method investees and beneficial interests in securitization transactions. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The guidance should be applied retrospectively after adoption. The adoption of this standard is not expected to have a material impact on our financial statements.

In 2016, the FASB issued new guidance on restricted cash on the statement of cash flows. The new guidance requires the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The guidance should be applied retrospectively after adoption. The adoption of this standard will require changes in cash and cash equivalents underlying customer accounts and restricted cash to be included in the reconciliation of beginning and ending balances shown on the statement of cash flows.

In 2017, the FASB issued new guidance clarifying the scope and application of the de-recognition of non-financial assets and the sale or transfer of non-financial assets, including partial sales. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Either of the following transition methods is permitted: (i) a full retrospective approach reflecting the application of the new standard in each prior reporting period, or (ii) a modified retrospective approach with a cumulative-effect adjustment to the opening balance of retained earnings in the year the new standard is first applied. The adoption of this standard is not expected to have a material impact on our financial statements.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

In 2017, the FASB issued new guidance that requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. Therefore, the new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Transition is on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We are evaluating the impact this new accounting guidance will have on our financial statements.

In 2017, the FASB issued new guidance clarifying which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Specifically, an entity would apply modification accounting only if the fair value, vesting conditions, or classification of the awards changes as a result of changes in the terms or conditions. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The guidance will be applied prospectively upon adoption. The amount of the impact to share-based compensation expense will depend on the terms specified in any new changes to the share-based payment awards.

In 2017, the FASB issued new guidance intended to better align the results of hedge accounting with an entity's risk management activities. This guidance updates the designation and measurement guidance for qualifying hedging relationships by expanding hedge accounting for both nonfinancial and financial risk components and by refining the measurement of hedge results to better reflect an entity's hedging strategies. The amendments will also align the recognition and presentation of the effects of the hedge results in the financial statements to increase the understandability of the results of an entity's intended hedging strategies. Additionally, the guidance includes certain targeted improvements to ease the operational burden of applying hedge accounting. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are required to apply the guidance with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is adopted and prospectively apply the presentation and disclosure guidance. We will early adopt the guidance in the first quarter of 2018 using a modified retrospective approach to reflect application of the new guidance effective January 1, 2018. Adoption of the guidance will not have a material impact on our financial statements.

### Recently Adopted Accounting Guidance

In 2016, the FASB issued new accounting guidance to simplify the analysis for embedded derivatives. The new guidance clarifies that when assessing whether a contingent put or call option qualifies as a separate derivative from the host contract (e.g., the debt instrument), the nature of the exercise contingency would be excluded from the assessment. We adopted the new guidance effective January 1, 2017. The adoption of this standard did not have a material impact on our financial statements.

In 2016, the FASB issued new accounting guidance on investments that qualify for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The new guidance eliminates the requirement for retrospective adjustment of the investment, results of operations and retained earnings as if the equity method had been in effect during all the previous periods that the investment had been held. Instead, under the new guidance, the cost of acquiring the additional interest in the investee would be added to the current basis of the previously held interest and equity method accounting would be adopted as of the date the investment becomes qualified for equity method accounting. We adopted the new guidance effective January 1, 2017. The adoption of this standard did not have a material impact on our financial statements.

In 2016, the FASB issued new guidance on the accounting for share-based payment compensation. The new guidance makes amendments to the following areas: accounting for income taxes upon vesting or settlement of awards, presentation of excess tax benefits or tax deficiencies on the statement of cash flows, accounting for forfeitures, minimum statutory withholding requirements and presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet minimum statutory withholding requirements. We adopted the new guidance effective January 1, 2017. As a result of the adoption, starting in the first quarter of 2017, stock-based compensation ("SBC") excess tax benefits or tax deficiencies are reflected in the consolidated statement of income within the provision for income taxes rather than in the consolidated balance sheet within additional paid-in capital. For the year ended December 31, 2017, we recognized approximately \$52 million of SBC net excess tax benefits within the provision for income taxes. Additionally, starting in the first quarter of 2017, we presented the cash flows related to the applicable SBC net excess tax benefits in operating activities along with other income tax cash flows rather than in financing activities. The remaining amendments did not have a material impact on our financial statements.

In 2016, the FASB issued new guidance on the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. Adoption of the new guidance must be made on a modified retrospective basis. We elected to early adopt the new guidance effective January 1, 2017. As a result of the adoption, we recorded a decrease of approximately \$41 million in retained earnings as of the beginning of the first quarter of 2017, with a corresponding decrease in

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

prepaid taxes related to the unamortized tax expense attributed to intra-entity transfers of assets previously deferred. Additionally, for the year ended December 31, 2017 we did not recognize approximately \$16 million of amortization of prepaid taxes attributed to prior period intra-entity asset transfers previously deferred within the provision for income taxes. As of adoption, when a new intra-entity transfer of assets occurs, we will recognize the income tax consequences associated with this activity in the consolidated statement of income in the period the transaction takes place. For the year ended December 31, 2017, we recognized \$44 million of income tax expense associated with intra-entity asset transfers which occurred during the period.

In 2017, the FASB issued new guidance to clarify the definition of a business to assist companies with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The new guidance requires a company to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the guidance for revenue from contracts with customers. The guidance should be applied prospectively to any transactions occurring within the period of adoption. We elected to early adopt the new guidance effective January 1, 2017. The adoption of this standard did not have an impact on our financial statements.

In 2017, the FASB issued new guidance to simplify the accounting for goodwill impairment. The guidance simplifies the measurement of goodwill impairment by removing step 2 of the goodwill impairment test, which requires the determination of the fair value of individual assets and liabilities of a reporting unit. The new guidance requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments should be applied on a prospective basis. We have elected to early adopt the new guidance for our annual goodwill impairment test to be performed after January 1, 2017. The adoption of this standard did not have a material impact on our financial statements.

In 2017, the FASB issued guidance that requires a company to evaluate the appropriate financial statement disclosures about the potential material effects that the new accounting guidance related to revenue recognition, measurement of credit losses on financial instruments and accounting for leases will have on its financial statements when adopted. If a company does not know or cannot reasonably estimate the impact that adoption of these new standards is expected to have on the financial statements, then in addition to making a statement to that effect, the company should consider additional qualitative disclosures to assist the reader in assessing the significance of the impact that these new guidance standards will have on the financial statements when adopted. We have considered the guidance and, where possible, have added additional qualitative disclosures on the potential impact to our financial statements.

### Note 2—Net Income Per Share

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015<sup>(1)</sup></b>
	<b>(In millions, except per share amounts)</b>		
Numerator:			
Net income	\$1,795	\$1,401	\$1,228
Denominator:			
Weighted average shares of common stock—basic	1,203	1,210	1,222
Dilutive effect of equity incentive awards	18	8	7
Weighted average shares of common stock—diluted	1,221	1,218	1,229
Net income per share:			
Basic	\$ 1.49	\$ 1.16	\$ 1.00
Diluted	\$ 1.47	\$ 1.15	\$ 1.00
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	2	8	12

<sup>(1)</sup> The weighted average number of common shares outstanding for basic and diluted earnings per share for the year ended December 31, 2015 was based on the number of common shares distributed on July 17, 2015 for the period prior to distribution and the weighted average number of common shares outstanding for the period beginning after the distribution date.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 3—Business Combinations

During 2017, we completed two acquisitions, reflecting 100% of the equity interests of the acquired companies, for an aggregate purchase price of \$421 million:

#### **TIO NETWORKS CORP.**

We completed the acquisition of TIO Networks Corp. (“TIO”) in July 2017 by acquiring all of the outstanding shares of TIO for \$2.64 per share in cash. We acquired TIO to expand our scale of operations, complement our product portfolio, and to help accelerate our entry into bill payments. The total purchase price of \$238 million consisted of cash consideration. The allocation of purchase consideration resulted in approximately \$66 million of technology and customer-related intangible assets with an estimated useful life of 1 to 5 years, net assets of approximately \$2 million and initial goodwill of approximately \$170 million, which is attributable to the workforce of TIO and the synergies expected to arise from the acquisition. We do not expect goodwill to be deductible for income tax purposes. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to the allocation to certain assets, liabilities and tax estimates may occur as additional information becomes available.

In November 2017, we suspended the operations of TIO to protect customer data as part of an ongoing investigation of security vulnerabilities of the TIO platform. Refer to Note 4—“Goodwill and Intangible Assets” and Note 13—“Commitments and Contingencies” for further details.

#### **SWIFT FINANCIAL CORPORATION**

We completed the acquisition of Swift Financial Corporation (“Swift Financial”) in September 2017 by acquiring all of the outstanding shares for a total purchase price of approximately \$183 million. We acquired Swift Financial to enable us to enhance our underwriting capabilities and strengthen our business financing offerings, helping us to deepen relationships with our existing merchants and expand services to new merchants. The allocation of purchase consideration resulted in approximately \$44 million of technology and customer-related intangible assets with an estimated useful life of 1 to 3 years, \$169 million of merchant receivables, net liabilities of approximately \$136 million and initial goodwill of approximately \$106 million, which is attributable to the workforce of Swift Financial and the synergies expected to arise from the acquisition. We do not expect goodwill to be deductible for income tax purposes. The gross contractual merchant receivables acquired were approximately \$213 million. Management estimates that the cash collected will approximate the contractual amounts of merchant receivables. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to the allocation to certain assets, liabilities and tax estimates may occur as additional information becomes available.

We have included the financial results of these acquired businesses in our consolidated financial statements from their respective date of acquisition. Revenues and expenses related to these acquisitions for the year ended December 31, 2017 were not material. Pro forma results of operations have not been presented because the effect of these acquisitions were not material to our financial results.

There were no acquisitions or divestitures completed in 2016.

During 2015, we completed four acquisitions, reflecting 100% of the equity interests of the acquired companies, for an aggregate amount of \$1.4 billion. During 2016, we finalized the allocation of the purchase consideration for Xoom, Paydiant, CyActive and one other acquisition, which resulted in a \$10 million adjustment to goodwill, primarily related to Xoom.

#### **Xoom**

We completed the acquisition of Xoom Corporation (“Xoom”) in November 2015 by acquiring all of the outstanding shares of Xoom for \$25 per share in cash. We acquired Xoom to offer a broader range of services to our global customer base, increase customer engagement and accelerate our entrance into the international remittances markets. The total purchase price of \$1.1 billion included cash consideration paid of approximately \$961 million, net of cash acquired of \$92 million, and the fair value of assumed unvested equity totaling \$7 million.



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

The following table summarizes the final allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed:

	(In millions)
Goodwill	\$ 645
Intangibles	217
Cash	92
Short-term investments	72
Accounts receivable	40
Other net liabilities	(6)
Total purchase consideration	\$1,060

The intangibles acquired consists primarily of partner relationships, technology, trade name and customer-related intangible assets, with an estimated useful life of 2 to 5 years. The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill which is attributable to the workforce of Xoom and the synergies expected to arise from the acquisition. We do not expect goodwill to be deductible for income tax purposes.

### Paydiant

We completed the acquisition of Paydiant, Inc. ("Paydiant") in April 2015 for total consideration of approximately \$230 million, net of cash acquired. We acquired Paydiant to expand our capabilities in mobile payments. The allocation of purchase consideration resulted in approximately \$49 million of technology and customer-related intangible assets, net liabilities of approximately \$6 million, and initial goodwill of approximately \$187 million. We do not expect goodwill to be deductible for income tax purposes.

### CyActive

We completed the acquisition of CyActive Security, Ltd. ("CyActive") in April 2015 for total consideration of approximately \$43 million, net of cash acquired. We acquired CyActive to further enhance our information security capabilities. The allocation of purchase consideration resulted in approximately \$8 million of technology-related intangible assets, net liabilities of approximately \$2 million, and initial goodwill of approximately \$37 million. We do not expect goodwill to be deductible for income tax purposes.

We have included the financial results of these acquired businesses in our consolidated financial statements from their respective dates of acquisition. Revenues and expenses related to these acquisitions for the year ended December 31, 2015 were not material. Pro forma results of operations have not been presented because the effect of these acquisitions were not material to our financial results.

## Note 4—Goodwill and Intangible Assets

### GOODWILL

The following table presents goodwill balances and adjustments to those balances for the years ended December 31, 2017 and 2016:

	December 31, 2015	Goodwill Acquired	Adjustments	December 31, 2016	Goodwill Acquired	Adjustments	December 31, 2017
	(In millions)						
Total goodwill	\$4,069	\$—	\$(10)	\$4,059	\$276	\$4	\$4,339

The goodwill acquired during 2017 was due primarily to the two acquisitions that we completed in 2017. The adjustments to goodwill during 2017 relate to foreign exchange rate translations. The adjustments to goodwill during 2016 pertain to measurement period adjustments related primarily to our acquisition of Xoom.



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### INTANGIBLE ASSETS

The components of identifiable intangible assets are as follows:

	December 31, 2017				December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
(In millions, except years)								
Intangible assets:								
Customer lists and user base	\$ 613	\$ (563)	\$ 50	3	\$ 605	\$ (542)	\$ 63	4
Marketing related	198	(196)	2	1	197	(190)	7	2
Developed technologies	274	(215)	59	3	245	(206)	39	3
All other	245	(188)	57	5	245	(143)	102	5
Intangible assets, net	\$1,330	\$(1,162)	\$168		\$1,292	\$(1,081)	\$ 211	

All identifiable intangible assets are subject to amortization and no significant residual value is estimated for the intangible assets. Amortization expense for intangible assets was \$126 million, \$150 million and \$93 million for the years ended December 31, 2017, 2016 and 2015, respectively. We test intangible assets for recoverability when changes in circumstances indicate that the carrying value of an asset group may not be recoverable.

As a result of the suspension of TIO's operations announced in November 2017, we performed a test for recoverability of the customer-related intangible assets acquired in connection with our acquisition of TIO in July 2017. The test involved comparing the intangible assets' carrying values to their future net undiscounted cash flows that we expected would be generated by the intangible assets. Based on the results of this test, we recorded an impairment charge of approximately \$30 million in depreciation and amortization in our consolidated statement of income, which was measured as the excess of carrying value over the estimated fair value of the assets. The calculation of the estimated fair value of these customer-related intangible assets is based on the income approach utilizing a discounted cash flow methodology. Following recognition of the impairment charge, we will amortize the adjusted carrying amount of those assets over their remaining useful life. We also determined that the suspension of TIO's operations did not indicate that the fair value of the reporting unit the TIO goodwill was assigned to would be below its carrying amount.

Expected future intangible asset amortization as of December 31, 2017 is as follows:

	(In millions)
Fiscal years:	
2018	\$ 99
2019	42
2020	27
2021	—
2022	—
	\$168

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 5—Funds Receivable and Customer Accounts

The following table summarizes the assets underlying our funds receivable and customer accounts as of December 31, 2017 and December 31, 2016:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
Cash and cash equivalents	\$ 5,192	\$ 4,319
Government and agency securities	6,651	5,625
Time deposits	739	522
Corporate debt securities	1,248	1,093
Funds receivable	4,412	2,804
Total funds receivable and customer accounts	\$18,242	\$14,363

As of December 31, 2017 and December 31, 2016, the estimated fair value of our investments classified as available-for-sale included within funds receivable and customer accounts was as follows:

	<b>December 31, 2017</b>			
	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
	<b>(In millions)</b>			
Government and agency securities	\$5,946	\$—	\$ (5)	\$ 5,941
Corporate debt securities	529	—	—	529
Total	\$6,475	\$—	\$ (5)	\$6,470

	<b>December 31, 2016</b>			
	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
	<b>(In millions)</b>			
Government and agency securities	\$5,198	\$—	\$ (2)	\$5,196
Corporate debt securities	531	—	—	531
Total	\$5,729	\$—	\$ (2)	\$5,727

We elect to account for certain investments within customer accounts, including foreign-currency denominated available-for-sale investments, under the fair value option. As a result, any gains and losses from fair value changes on such investments are recognized in other income (expense), net on the consolidated statement of income. Election of the fair value option allows us to significantly reduce the accounting asymmetry that would otherwise arise when recognizing the changes in the fair value of available-for-sale investments and the corresponding foreign exchange gains and losses relating to customer liabilities. At December 31, 2017 and 2016, the estimated fair value of our investments included within funds receivable and customer accounts under the fair value option was \$1.4 billion and \$1.0 billion, respectively. In the years ended December 31, 2017 and 2016, \$176 million of net gains and \$66 million of net losses from fair value changes, respectively, were recognized in other income (expense), net on the consolidated statement of income.

The aggregate fair value of investments in an unrealized loss position was \$6.0 billion and \$4.1 billion as of December 31, 2017 and December 31, 2016, respectively. The aggregate gross unrealized loss on our short-term and long-term investments was not material as of December 31, 2017 and December 31, 2016. We believe the decline in value is due to temporary market conditions and expect to recover the entire amortized cost basis of the securities. We neither intend nor anticipate the need to sell the securities before recovery. We will continue to monitor the performance of the investment portfolio and assess market and interest rate risk when evaluating whether other-than-temporary impairment exists.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

As of December 31, 2017 and 2016, we had no material investments that had been in a continuous unrealized loss position for greater than 12 months. Amounts reclassified to earnings from unrealized gains and losses were not material for the years ended December 31, 2017 and 2016.

The estimated fair values of our investments classified as available-for-sale included within funds receivable and customer accounts by date of contractual maturity at December 31, 2017 were as follows:

	<b>December 31, 2017</b>
	<b>(In millions)</b>
One year or less	\$6,396
One year through two years	38
Two years through three years	36
Total	\$6,470

### Note 6—Investments

At December 31, 2017 and 2016, the estimated fair value of our short-term and long-term investments classified as available for sale was as follows:

	<b>December 31, 2017</b>			
	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
	<b>(In millions)</b>			
Short-term investments <sup>(1)(2)</sup> :				
Corporate debt securities	\$2,092	\$ 1	\$ (1)	\$2,092
Government and agency securities	210	—	—	210
Long-term investments <sup>(1)</sup> :				
Corporate debt securities	1,769	2	(7)	1,764
Government and agency securities	98	—	—	98
Total <sup>(1)(2)</sup>	\$4,169	\$ 3	\$ (8)	\$4,164

<sup>(1)</sup> Excludes short-term restricted cash of \$79 million that we intend to use to support our global sabbatical program and a counterparty guarantee, and long-term restricted cash of \$2 million.

<sup>(2)</sup> Excludes time deposits of \$163 million, which are not considered available-for-sale securities.

	<b>December 31, 2016</b>			
	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
	<b>(In millions)</b>			
Short-term investments <sup>(1)(2)</sup> :				
Corporate debt securities	\$2,867	\$ 1	\$ (1)	\$2,867
Government and agency securities	32	—	—	32
Long-term investments:				
Corporate debt securities	1,473	1	(4)	1,470
Government and agency securities	10	—	—	10
Total <sup>(1)(2)</sup>	\$4,382	\$ 2	\$ (5)	\$4,379

<sup>(1)</sup> Excludes short-term restricted cash of \$17 million that we intend to use to support our global sabbatical program.

<sup>(2)</sup> Excludes time deposits of \$122 million, which are not considered available-for-sale securities.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

In the second quarter of 2016, we elected to account for foreign denominated available-for-sale investments held in our Luxembourg banking subsidiary under the fair value option. Election of the fair value option allows us to recognize any gains and losses from fair value changes on such investments in other income (expense), net on the consolidated statement of income to offset certain foreign exchange gains and losses on our foreign denominated customer liabilities. As of December 31, 2017 and 2016, the estimated fair value of our investments included within short-term investments and long-term investments under the fair value option was \$277 million and \$356 million, respectively. In the years ended December 31, 2017 and 2016, \$36 million of net gains and \$48 million of net losses, respectively, from fair value changes were recognized in other income (expense), net on the consolidated statement of income.

The aggregate fair value of short-term and long-term investments in an unrealized loss position was \$2.8 billion as of December 31, 2017 and \$2.2 billion as of December 31, 2016, of which \$207 million and \$10 million, respectively, was in a continuous unrealized loss position for greater than 12 months. The aggregate gross unrealized loss on our short-term and long-term investments was not material as of December 31, 2017 and 2016. We believe the decline in value is due to temporary market conditions and expect to recover the entire amortized cost basis of the securities. We neither intend nor anticipate the need to sell the securities before recovery. We will continue to monitor the performance of the investment portfolio and assess market and interest rate risk when evaluating whether other-than-temporary impairment exists. Amounts reclassified to earnings from unrealized gains and losses were not material for the years ended December 31, 2017 and 2016.

The estimated fair values of our short-term and long-term investments classified as available for sale by date of contractual maturity at December 31, 2017 were as follows:

	<b>December 31, 2017</b>
	<b>(In millions)</b>
One year or less	\$2,302
One year through two years	942
Two years through three years	672
Three years through four years	179
Four years through five years	58
Greater than five years	11
Total	\$4,164

### OTHER INVESTMENTS

We have cost method investments which are reported in long-term investments on our consolidated balance sheet. Our cost method investments consist primarily of minority equity interests in privately held companies and totaled \$88 million and \$50 million as of December 31, 2017 and 2016, respectively. The increase in our cost method investments was due to additional investments made in 2017.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 7—Fair Value Measurement of Assets and Liabilities

#### FINANCIAL ASSETS AND LIABILITIES MEASURED AND RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	Balances at December 31, 2017	Significant Other Observable Inputs (Level 2)
(In millions)		
<b>Assets:</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 791	\$ 791
Short-term investments <sup>(2)</sup> :		
Corporate debt securities	2,219	2,219
Government and agency securities	351	351
Total short-term investments	\$ 2,570	\$ 2,570
Funds receivable and customer accounts <sup>(3)</sup>	8,007	8,007
Derivatives	66	66
Long-term investments <sup>(2)</sup> :		
Corporate debt securities	1,773	1,773
Government and agency securities	98	98
Total long-term investments	1,871	1,871
Total financial assets	\$13,305	\$13,305
<b>Liabilities:</b>		
Derivatives	\$ 218	\$ 218

<sup>(1)</sup> Excludes cash of \$2.1 billion not subject to fair value measurement on a recurring basis.

<sup>(2)</sup> Excludes restricted cash of \$81 million and time deposits of \$163 million not subject to fair value measurement on a recurring basis.

<sup>(3)</sup> Excludes cash, time deposits and funds receivable of \$10.2 billion underlying funds receivable and customer accounts not subject to fair value measurement.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

	Balances at December 31, 2016	Significant Other Observable Inputs (Level 2)
	(In millions)	
<b>Assets:</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 268	\$ 268
Short-term investments <sup>(2)</sup> :		
Corporate debt securities	2,882	2,882
Government and agency securities	364	364
Total short-term investments	3,246	3,246
Funds receivable and customer accounts <sup>(3)</sup>	6,898	6,898
Derivatives	223	223
Long-term investments:		
Corporate debt securities	1,479	1,479
Government and agency securities	10	10
Total long-term investments	1,489	1,489
Total financial assets	\$12,124	\$12,124
<b>Liabilities:</b>		
Derivatives	\$ 59	\$ 59

<sup>(1)</sup> Excludes cash of \$1.3 billion not subject to fair value measurement on a recurring basis.

<sup>(2)</sup> Excludes restricted cash of \$17 million and time deposits of \$122 million not subject to fair value measurement on a recurring basis.

<sup>(3)</sup> Excludes cash, time deposits and funds receivable of \$7.5 billion underlying funds receivable and customer accounts not subject to fair value measurement on a recurring basis.

Our financial assets and liabilities are valued using market prices on both active markets (Level 1) and less active markets (Level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs.

A majority of our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as currency rates, interest rate yield curves, option volatility and equity prices. Our derivative instruments are primarily short-term in nature, generally one month to one year in duration. Certain foreign currency contracts designated as cash flow hedges may have a duration of up to 18 months.

We did not have any transfers of financial instruments between valuation levels during the years ended December 31, 2017 and 2016. As of December 31, 2017, we did not have any assets or liabilities requiring measurement at fair value without observable market values that would require a high level of judgment to determine fair value (Level 3).

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less when purchased and are comprised primarily of bank deposits, government and agency securities and commercial paper.

We elect to account for foreign currency denominated available-for-sale investments underlying funds receivable and customer accounts, short-term investments and long-term investments under the fair value option as further discussed in "Note 5—Funds Receivable and Customer Accounts" and "Note 6—Investments."

### FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AND RECORDED AT FAIR VALUE

Our financial instruments, including cash, time deposits, accounts receivable, loans and interest receivable, loans and interest receivable held for sale, funds receivable, certain customer accounts, accounts payable, notes payable, and funds payable and amounts due to customers are carried at cost, which approximates their fair value due to the short-term maturity of these instruments. If these financial instruments were measured at fair value in the financial statements, cash would be classified as Level 1, time deposits, certain customer accounts, and notes payable would be classified as Level 2, and the remaining financial instruments would be classified as Level 3 in the fair value hierarchy.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 8—Derivative Instruments

#### SUMMARY OF DERIVATIVE INSTRUMENTS

Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. Our derivatives expose us to credit risk to the extent that our counterparties may be unable to meet the terms of the arrangement. We seek to mitigate such risk by limiting our counterparties to, and by spreading the risk across, major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis.

#### FOREIGN EXCHANGE CONTRACTS

We transact business in various foreign currencies and have significant international revenues and costs denominated in foreign currencies, which subjects us to foreign currency risk. We have a foreign currency exposure management program whereby we designate certain foreign currency exchange contracts, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in foreign currencies. The objective of the foreign exchange contracts is to help mitigate the risk that the U.S. dollar-equivalent cash flows are adversely affected by changes in the applicable U.S. dollar/foreign currency exchange rate. These derivative instruments are designated as cash flow hedges and accordingly, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings. We evaluate the effectiveness of our foreign exchange contracts on a quarterly basis by comparing the change in the fair value of the derivative instruments with the change in the fair value of the forecasted cash flows of the hedged item. We do not use any foreign exchange contracts for trading or speculative purposes.

For our derivative instruments designated as cash flow hedges, the amounts recognized in earnings related to the ineffective portion were not material in each of the periods presented, and we did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. During the years ended December 31, 2017, 2016 and 2015 we did not discontinue any cash flow hedges because it was probable that the original forecasted transaction would not occur and as such, did not reclassify any gains or losses to earnings. As of December 31, 2017, we estimated that \$111 million of net derivative losses related to our cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

We have an additional foreign currency exposure management program whereby we use foreign exchange contracts to offset the foreign exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. These contracts are not designated as hedging instruments and reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities. The foreign currency gains and losses on our assets and liabilities are recorded in other income (expense), net, which is offset by the gains and losses on the foreign exchange contracts.

#### FAIR VALUE OF DERIVATIVE CONTRACTS

The fair value of our outstanding derivative instruments as of December 31, 2017 and 2016 was as follows:

	Balance Sheet Location	As of December 31,	
		2017	2016
		(In millions)	
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	\$ —	\$135
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	66	88
Total derivative assets		\$ 66	\$223
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	\$ 94	\$ 4
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	124	55
Total derivative liabilities		\$ 218	\$ 59
Net fair value of derivative instruments		\$(152)	\$164



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### MASTER NETTING AGREEMENTS—RIGHTS OF SETOFF

Under master netting agreements with respective counterparties to our foreign exchange contracts, subject to applicable requirements, we are allowed to net settle transactions of the same type with a single net amount payable by one party to the other. However, we have elected to present the derivative assets and derivative liabilities on a gross basis in our consolidated balance sheet. Rights of setoff associated with our foreign exchange contracts represented a potential offset to both assets and liabilities by \$56 million as of December 31, 2017 and \$44 million as of December 31, 2016. During the year ended December 31, 2017, we entered into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. We posted \$38 million of collateral related to our derivative liabilities as of December 31, 2017. This amount, which is recognized in other current assets on our consolidated balance sheet, is related to the right to reclaim cash collateral. We did not post or receive any collateral related to our derivative liabilities as of December 31, 2016.

### Effect of Derivative Contracts on Accumulated Other Comprehensive Income

The following table summarizes the activity of derivative contracts that qualify for hedge accounting as of December 31, 2017 and December 31, 2016, and the impact of designated derivative instruments on accumulated other comprehensive income for the twelve months ended December 31, 2017 and 2016:

	December 31, 2016	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Less: Amount of gain reclassified from accumulated other comprehensive income to net revenue (effective portion)	December 31, 2017
(In millions)				
Foreign exchange contracts designated as cash flow hedges	\$131	\$(225)	\$17	\$(111)

	December 31, 2015	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Less: Amount of gain reclassified from accumulated other comprehensive income to net revenue (effective portion)	December 31, 2016
(In millions)				
Foreign exchange contracts designated as cash flow hedges	\$57	\$193	\$119	\$131

### EFFECT OF DERIVATIVE CONTRACTS ON CONSOLIDATED STATEMENTS OF INCOME

The following table provides the location in the financial statements of the recognized gains or losses related to our derivative instruments:

	Year Ended December 31,		
	2017	2016	2015
(In millions)			
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	\$ 17	\$119	\$182
Foreign exchange contracts not designated as cash flow hedges recognized in other income (expense), net	(54)	76	17
Total gain (loss) recognized from derivative contracts in the consolidated statement of income	\$(37)	\$195	\$199

The gains and losses related to foreign exchange contracts not designated as cash flow hedges are offset by the foreign currency gains and losses on our assets and liabilities recognized in other income (expense), net.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### NOTIONAL AMOUNTS OF DERIVATIVE CONTRACTS

Derivative transactions are measured in terms of the notional amount; however, this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the derivative instruments. The notional amount is generally not exchanged, but is used only as the underlying basis on which the value of foreign exchange payments under these contracts is determined. The following table provides the notional amounts of our outstanding derivatives:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
Foreign exchange contracts designated as cash flow hedges	\$2,639	\$1,865
Foreign exchange contracts not designated as hedging instruments	5,669	4,612
Total	\$8,308	\$6,477

### Note 9—Property and Equipment, Net

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
<b>Property and equipment, net:</b>		
Computer equipment and software	\$ 2,301	\$ 2,049
Internal use software and website development costs	1,828	1,372
Land and buildings	364	357
Leasehold improvements	388	335
Furniture and fixtures	129	119
Development in progress and other	148	268
Total property and equipment, gross	5,158	4,500
Accumulated depreciation	(3,630)	(3,018)
Total property and equipment, net	\$ 1,528	\$ 1,482

Depreciation expense was \$649 million in 2017, \$574 million in 2016 and \$515 million in 2015.

The net change in purchases of property and equipment included in accounts payable was not material in 2017, \$35 million in 2016, and not material in 2015.

### Note 10—Loans and Interest Receivable

#### LOANS AND INTEREST RECEIVABLE, HELD FOR SALE

In November 2017, we reached an agreement to sell our U.S. consumer credit receivables portfolio to Synchrony Bank. Historically, this portfolio was reported as outstanding principal balances, net of any participation interest sold and pro-rata allowances, including unamortized deferred origination costs and estimated collectible interest and fees. Upon approval of our Board of Directors to sell these receivables, the portfolio was reclassified as held for sale and recorded at the lower of cost or fair value, determined on an aggregate basis. Due to the designation as held for sale, the associated allowance for this portfolio was reversed, resulting in an increase of approximately \$39 million in revenue from other value added services and a decrease of approximately \$283 million in transaction and loan losses in our consolidated statement of income. See "Note 1—Overview and Summary of Significant Accounting Policies" for additional information. As of December 31, 2017, the total outstanding balance in our held for sale portfolio was \$6.4 billion, net of the participation interest sold to an independent chartered financial institution and other investors of \$1.1 billion.

We use consumer FICO scores, where available, among other measures in evaluating the credit quality of our U.S. PayPal Credit consumer receivables, held for sale. A FICO score is a type of credit score that lenders use to assess an applicant's credit risk and whether to extend credit. Individual FICO scores are generally obtained each quarter in which the U.S. consumer has an

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

outstanding consumer receivable that we own. The weighted average U.S. consumer FICO scores related to our loans and interest receivable, held for sale balance outstanding at December 31, 2017 and December 31, 2016 were 680 and 679, respectively. The Company has revised its weighted average U.S. consumer FICO score as of December 31, 2016 to conform to the current period presentation.

As of December 31, 2017 and December 31, 2016, approximately 51.1% and 52.1%, respectively, of the pool of loans and interest receivable, held for sale was due from U.S. consumers with FICO scores greater than or equal to 680, which is generally considered "prime" by the consumer credit industry. As of December 31, 2017 and December 31, 2016, approximately 11.7% and 11.1%, respectively, of the pool of loans and interest receivable, held for sale was due from U.S. customers with FICO scores below 599.

The following table presents the principal amount of U.S. consumer loans and interest receivable, segmented by a FICO score range:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
> 760	\$ 832	\$ 665
680-759	2,439	1,938
600-679	2,378	1,840
< 599	752	553
<b>Total</b>	<b>\$6,401</b>	<b>\$4,996</b>

None of our loans and interest receivable were designated as held for sale as of December 31, 2016. FICO score segmentation as of December 31, 2016 included in the table above provides the credit quality of these receivables for comparative purposes only.

The following table presents the delinquency status of U.S. consumer loans and interest receivable. The amounts shown below are based on the number of days past the billing date to the consumer. Current represents balances that are within 30 days of the billing date. As of December 31, 2017, approximately 90.6%, of the portfolio of consumer receivables and interest receivable, was current.

<b>December 31, 2017<sup>(1)</sup></b>					
	<b>(In millions)</b>				
<b>Current</b>	<b>30 - 59 Days</b>	<b>60 - 89 Days</b>	<b>90 - 180 Days</b>	<b>Total Past 30 days</b>	<b>Total</b>
\$5,800	\$240	\$103	\$258	\$601	\$6,401

<sup>(1)</sup> Includes approximately \$50 million of U.S. consumer receivables not designated as held for sale that are fully reserved and are expected to be charged off, and excludes approximately \$47 million related to accrued unbilled interest.

No allowances are recorded for potential losses against the loans and interest receivable, held for sale portfolio. Adjustments to the cost basis of the held for sale portfolio, which are primarily driven by charge-offs, are recorded as incurred and recognized in restructuring and other charges in our consolidated statement of income.

### LOANS AND INTEREST RECEIVABLE, NET

#### Consumer receivables

We offer credit products to consumers who choose PayPal Credit as their funding source at checkout. As of December 31, 2017, the outstanding balance in our pool of consumer receivables that excludes amounts classified as held for sale and consists of loans and interest receivable due from international consumer accounts was \$326 million. As of December 31, 2016, the outstanding balance in our pool of consumer receivables was \$5.1 billion, which includes receivables due from both U.S. and international consumers as the U.S. consumer receivables were not designated as held for sale as of that date.

We closely monitor credit quality for our international consumer receivables to manage and evaluate our related exposure to credit risk. Credit risk management begins with initial underwriting and continues through to full repayment of a loan. To assess a consumer who requests a loan, we use, among other indicators, internally developed risk models using detailed information from external sources such as credit bureaus where available and internal historical experience including the consumer's prior repayment history with PayPal Credit products as well as other measures. We use delinquency status and trends to assist in

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

making new and ongoing credit decisions, adjust our models, plan our collection practices and strategies and in our determination of our allowance for international consumer loans and interest receivable.

The following tables present the delinquency status of the principal amount of consumer loans and interest receivable. The amounts shown below are based on the number of days past the billing date to the consumer. Current represents balances that are within 30 days of the billing date. Amounts as of December 31, 2017 represent loans and interest receivable due from consumer accounts excluding amounts classified as held for sale, of which approximately 96.0% were current. Amounts as of December 31, 2016 represent total consumer loans and interest receivable, including U.S. consumer receivables because they were not designated as held for sale as of that date, of which approximately 90.0% were current.

December 31, 2017					
(In millions)					
Current	30 - 59 Days	60 - 89 Days	90 - 180 Days	Total Past 30 days	Total
\$313	\$7	\$2	\$4	\$13	\$326

December 31, 2016					
(In millions)					
Current	30 - 59 Days	60 - 89 Days	90 - 180 Days	Total Past 30 days	Total
\$4,601	\$219	\$82	\$211	\$512	\$5,113

We charge off consumer loan receivable balances in the month in which a customer balance becomes 180 days past the payment due date. Bankrupt accounts are charged off within 60 days after receipt of notification of bankruptcy. Loans receivable past the payment due date continue to accrue interest until they are charged off. We record an allowance for loss against the interest and fees receivable.

The following table summarizes the activity in the allowance for consumer loans and interest receivable for the years ended December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016 <sup>(1)</sup>		
	Consumer Loans Receivable	Interest Receivable	Total <sup>(2)</sup> Allowance	Consumer Loans Receivable	Interest Receivable	Total Allowance
(In millions)						
Beginning Balance <sup>(1)</sup>	\$ 265	\$ 40	\$ 305	\$ 179	\$ 32	\$ 211
Reversal of allowance related to loans and interest receivable, held for sale	(283)	(39)	(322)	—	—	—
Provisions	406	113	519	388	116	504
Charge-offs	(362)	(108)	(470)	(330)	(108)	(438)
Recoveries	31	—	31	28	—	28
Ending Balance	\$ 57	\$ 6	\$ 63	\$ 265	\$ 40	\$ 305

<sup>(1)</sup> Includes allowance related to loans and interest receivable, held for sale portfolio prior to its designation as held for sale.

<sup>(2)</sup> Includes approximately \$50 million of U.S. consumer receivables not designated as held for sale that are fully reserved and are expected to be charged off.

The tables above exclude receivables from other consumer credit products of \$55 million and \$16 million at December 31, 2017 and 2016, respectively, and allowances of \$7 million and \$3 million at December 31, 2017 and 2016, respectively.

The provision for loan losses relating to our international consumer loans receivable portfolio is recognized in transaction and loan losses. The provision for interest receivable on the interest and fees earned on our international consumer loans receivable portfolio is recognized in net revenues from other value added services as a reduction in revenue.

### Merchant receivables

We offer credit products to certain existing small and medium-sized merchants through our PayPal Working Capital product and, subsequent to our acquisition of Swift in late September 2017, Swift business loan and advance products. As of December 31, 2017, the total outstanding balance in our pool of merchant loans, advances, interest and fees receivable was \$1.01 billion, net of the

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

participation interest sold to an independent chartered financial institution. As of December 31, 2016, the total outstanding balance in our pool of merchant loans, advances, interest and fees receivable was \$558 million. See “Note 1—Overview and Summary of Significant Accounting Policies” for additional information on this participation arrangement.

### PayPal Working Capital receivables

As of December 31, 2017, the total outstanding balance in our pool of PayPal Working Capital loans, advances and fees receivable was \$703 million, net of the related participation interest sold to an independent chartered financial institution of \$28 million. As of December 31, 2016, the total outstanding balance in our pool of working capital loans, advances and fees receivable was \$558 million.

Through our PayPal Working Capital product, merchants can borrow a certain percentage of their annual payment volume processed by PayPal and are charged a fixed fee for the loan or advance, which targets an annual percentage rate based on the overall credit assessment of the merchant. Loans and advances are repaid through a fixed percentage of the merchant’s future payment volume that PayPal processes. The fee is fixed at the time the loan or advance is extended and recognized as deferred revenues included in other current liabilities in our consolidated balance sheet. The fixed fee is amortized to net revenues from other value added services based on the amount repaid over the repayment period. We estimate the repayment period based on the merchant’s payment processing history with PayPal. There is no stated interest rate. There is a general requirement that at least 10% of the original amount of the loan or advance plus the fixed fee must be repaid every 90 days. We calculate the repayment rate of the merchant’s future payment volume so that repayment of the loan or advance and fixed fee is expected to generally occur within 9 to 12 months from the date of the loan or advance. On a monthly basis, we recalculate the repayment period based on the repayment activity on the receivable. As such, actual repayment periods are dependent on actual merchant payment processing volumes. We actively monitor receivables with repayment periods greater than the original expected repayment period.

We closely monitor credit quality for all working capital loans and advances that we extend or purchase to manage and evaluate our related exposure to credit risk. To assess a merchant who requests a PayPal Working Capital loan or advance, we use, among other indicators, an internally developed risk model that we refer to as our PayPal Working Capital Risk Model (“PRM”), as a credit quality indicator to help predict the merchant’s ability to repay loans or advances. Primary drivers of the model include the merchant’s annual payment volume and payment processing history with PayPal, prior repayment history with the PayPal Working Capital product and other measures. Merchants are assigned a PRM score within the range of 350 to 750. We generally expect that merchants to which we extend a working capital loan or advance will have PRM scores greater than 525. We generally consider scores above 610 to be very good and to pose less credit risk. We assess the participating merchant’s PRM score on a recurring basis for all outstanding working capital loans and advances owned by PayPal. At December 31, 2017 and 2016, the weighted average PRM score related to our PayPal Working Capital balances outstanding was 619 and 625, respectively.

The following table presents the principal amount of PayPal Working Capital loans, advances and fees receivable segmented by PRM score ranges:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
> 610	\$450	\$378
526-609	140	108
<525	113	72
Total	\$703	\$558

### Swift Merchant loans and advance receivables

As of December 31, 2017, the total outstanding balance in our pool of Swift merchant loans, advances, interest and fees receivable was \$309 million. Through our Swift merchant loan products, we provide merchants with access to short-term business financing based on an evaluation of both the applying business as well as the business owner.

We closely monitor credit quality for all merchant loans and advances that we underwrite and issue, so that we can evaluate, quantify, and manage our credit risk exposure. To assess a merchant seeking a loan or an advance, we use, among other indicators, a risk model developed internally which utilizes information obtained from multiple data sources, both external and internal, to predict the likelihood of timely and satisfactory repayment by the merchant of the loan or advance amount and the related

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

interest or fixed fee. Drivers of the model include elements sourced from consumer credit bureau and business credit bureau reports, prior repayment history with our products where available, and other information obtained during the application process. We use delinquency status and trends to assist in making new and ongoing credit decisions, adjusting our internal model, plan our collection practices and strategies and in our determination of our allowance for these loans and advances.

Swift merchant loans and advances are collected by daily or weekly payments until the balance has been satisfied. The interest or fee is fixed at the time the loan is extended and recognized as deferred revenues included in other current liabilities in our consolidated balance sheet. The fixed interest or fee is amortized to net revenues from other value added services based on the amount repaid over the repayment period. There is no stated interest rate and the terms are generally less than 12 months.

### Merchant receivable delinquency and allowance

The following tables present our estimate of the principal amount of PayPal Working Capital and Swift business loans, advances, interest and fees receivable past their original expected repayment period. In the second quarter of 2016, we refined our estimate of the original expected repayment period for PayPal Working Capital loans and advances to take into account the variability in repayment patterns. Prior period amounts have been updated to reflect this change.

December 31, 2017						
Within Original Expected Repayment Period	30 - 59 Days Greater	60 - 89 Days Greater	(In millions) 90 - 180 Days Greater	180+ Days	Total Past Original Expected Repayment Period	Total
\$884	\$44	\$28	\$43	\$13	\$128	\$1,012

December 31, 2016						
Within Original Expected Repayment Period	30 - 59 Days Greater	60 - 89 Days Greater	(In millions) 90 - 180 Days Greater	180+ Days	Total Past Original Expected Repayment Period	Total
\$462	\$35	\$19	\$30	\$12	\$96	\$558

The following table summarizes the activity in the allowance for PayPal Working Capital and Swift business loans, advances, interest and fees receivable, for the years ended December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	PayPal Working Capital & Swift Loans and Advances	Interest & Fees Receivable	Total Allowance	PayPal Working Capital Loans and Advances	Fees Receivable	Total Allowance
(In millions)						
Beginning Balance	\$ 28	\$ 3	\$ 31	\$ 19	\$ 3	\$ 22
Provisions	65	12	77	45	6	51
Charge-offs	(46)	(8)	(54)	(41)	(6)	(47)
Recoveries	5	—	5	5	—	5
Ending Balance	\$ 52	\$ 7	\$ 59	\$ 28	\$ 3	\$ 31

For our PayPal Working Capital product, we charge off the receivable when the repayments are 180 days past our expectation of repayments and the merchant has not made a payment in the last 60 days. We also charge off the receivable when the repayments are 360 days past due regardless of whether or not the merchant has made a payment within the last 60 days. The provision for loan losses relating to our PayPal Working Capital loans and advances is recognized in transaction and loan losses, and the provisions for fees receivable is recognized in deferred revenues included in other current liabilities in our consolidated balance sheet as a reduction in deferred revenue.

For Swift merchant loans and advances, the determination of delinquency, from current to 180 days past due, is based on the current expected repayment period of the loan or advance and fixed interest or fee payment as compared to the original expected repayment period. We charge off the receivable when the repayments are 180 days past our expectation of repayments. Bankrupt accounts are charged off within 60 days of receiving notification of bankruptcy. The provision for loan losses is recognized in transaction and loan losses. Charge-offs that are recovered are recorded as a reduction to our allowance for loans and interest receivable.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 11—Segment and Geographical Information

We determine operating segments based on how our chief operating decision maker manages the business, including making operating decisions, deciding how to allocate resources and evaluating operating performance. Our chief operating decision maker is our Chief Executive Officer, who reviews our operating results on a consolidated basis. We operate in one segment and have one reportable segment.

The following tables summarize the allocation of net revenues and long-lived assets based on geography:

	Year Ended December 31,		
	2017	2016	2015
	(In millions)		
Net revenues:			
U.S.	\$ 7,084	\$ 5,760	\$4,640
U.K.	1,402	1,257	1,191
Other countries	4,608	3,825	3,417
Total net revenues	\$13,094	\$10,842	\$9,248

	As of December 31,	
	2017	2016
	(In millions)	
Long-lived assets:		
U.S.	\$1,432	\$ 1,391
Other countries	96	91
Total long-lived assets	\$1,528	\$1,482

Net revenues earned from transaction revenues are attributed to U.S., U.K. and other countries primarily based upon the country in which the merchant is located, or in the case of a cross-border transaction, may be earned from the country in which the consumer and the merchant respectively reside. Net revenues earned from value added services are typically attributed to the country in which either the customer or partner reside. Tangible long-lived assets for the years ended December 31, 2017 and 2016 consisted of property and equipment. Long-lived assets attributed to the U.S. and other countries are based upon the country in which the asset is located or owned.

Information regarding net revenues by major products and services for the years ended December 31, 2017, 2016 and 2015 was as follows:

	Year Ended December 31,		
	2017	2016	2015
	(In millions)		
Transaction revenues	\$11,402	\$ 9,490	\$ 8,128
Other value added services	1,692	1,352	1,120
Total net revenues	\$13,094	\$10,842	\$9,248

### Note 12—Notes Payable

In the fourth quarter of 2017, we entered into a credit agreement ("2017 Credit Agreement") that provides for an unsecured \$3.0 billion, 364-day delayed-draw term loan credit facility, which is available in up to three borrowings. Borrowings and other amounts payable under the 2017 Credit Agreement are guaranteed by PayPal, Inc. Subject to specified conditions, we may designate one or more of our subsidiaries as additional borrowers under the 2017 Credit Agreement provided that we and PayPal, Inc. guarantee all borrowings and other obligations of any such subsidiaries under the 2017 Credit Agreement. As of December 31, 2017, no subsidiaries were designated as additional borrowers. Funds borrowed under the 2017 Credit Agreement may be used for capital allocation and other general corporate purposes. During the three months ended December 31, 2017, we effected a single



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

draw down of \$1.0 billion under the 2017 Credit Agreement. The borrowing bears interest at the London Interbank Offered Rate (“LIBOR”) of one month plus a margin of 1.125% resulting in a weighted average interest rate of 2.78%. As of December 31, 2017, \$1.0 billion was outstanding under the 2017 Credit Agreement. Accordingly, at December 31, 2017, \$2.0 billion of borrowing capacity was available for the purposes permitted by the 2017 Credit Agreement, subject to customary conditions to borrowing.

The company maintains uncommitted credit facilities in various regions throughout the world, aggregating to approximately \$250 million. Interest rate terms for these facilities vary by region and reflect prevailing market rates for companies with strong credit ratings. As of December 31, 2017, no amounts were outstanding under those facilities, and therefore, approximately \$250 million of borrowing capacity was available, subject to customary conditions to borrowing.

In the third quarter of 2015, we entered into a credit agreement (“2015 Credit Agreement”) that provides for an unsecured \$2.0 billion, five-year revolving credit facility that includes a \$150 million letter of credit sub-facility and a \$150 million swingline sub-facility, with available borrowings under the revolving credit facility reduced by the amount of any letters of credit and swingline borrowings outstanding. Borrowings and other amounts payable under the 2015 Credit Agreement are guaranteed by PayPal, Inc. We may also, subject to the agreement of the applicable lenders, increase the commitments under the revolving credit facility by up to \$500 million. Subject to specified conditions, we may designate one or more of our subsidiaries as additional borrowers under the 2015 Credit Agreement provided that we and PayPal, Inc. guarantee all borrowings and other obligations of any such subsidiaries under the 2015 Credit Agreement. As of December 31, 2017, no subsidiaries were designated as additional borrowers. Funds borrowed under the 2015 Credit Agreement may be used for working capital, capital expenditures, acquisitions and other general corporate purposes. During the third quarter of 2017, we drew down \$800 million under the 2015 Credit Agreement, which was repaid during the fourth quarter of 2017. The borrowing bore interest at LIBOR of one month plus a margin of 1.125% resulting in a weighted-average interest rate of 2.36%. As of December 31, 2017, no borrowings or letters of credit were outstanding under the 2015 Credit Agreement. Accordingly, at December 31, 2017, \$2.0 billion of borrowing capacity was available for the purposes permitted by the 2015 Credit Agreement subject to customary conditions to borrowing.

### Note 13—Commitments and Contingencies

#### COMMITMENTS

As of December 31, 2017, approximately \$26.4 billion of unused credit was available to PayPal Credit account holders compared to \$28.8 billion of unused credit as of December 31, 2016. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit account holders will access their entire available credit at any given point in time. In addition, the individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institution that is the issuer of PayPal Credit products based on, among other things, account usage and customer creditworthiness. When a consumer funds a purchase in the U.S. using a PayPal Credit product issued by a chartered financial institution, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the receivables related to the consumer loans extended by the chartered financial institution and, as a result of such purchase, bear the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each customer account, we own the related receivable (excluding participation interests sold) and are responsible for all servicing functions related to the account. See “Note 1—Overview and Summary of Significant Accounting Policies” for additional information.

#### LEASE ARRANGEMENTS

We have lease obligations under certain non-cancelable operating leases. Our non-cancelable operating lease agreements typically have terms between 3-10 years and generally contain multi-year renewal options. We recognize rent expense under such agreements on a straight-line basis.

Future minimum rental payments under non-cancelable operating leases at December 31, 2017, are as follows:

	<b>Operating Leases</b>
	<b>(In millions)</b>
2018	\$ 119
2019	112
2020	82
2021	62
2022	50
Thereafter	130
Total minimum lease payments	\$555

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

Rent expense for the years ended December 31, 2017, 2016 and 2015 totaled \$69 million, \$76 million and \$59 million, respectively. The future minimum lease payments include the minimum commitments for our facilities.

### LITIGATION AND REGULATORY MATTERS

#### Overview

We are involved in legal and regulatory proceedings on an ongoing basis. Many of these proceedings are in early stages, and may seek an indeterminate amount of damages. If we believe that a loss arising from such matters is probable and can be reasonably estimated, we accrue the estimated liability in our financial statements. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range. For those proceedings in which an unfavorable outcome is reasonably possible but not probable, we have disclosed an estimate of the reasonably possible loss or range of losses or we have concluded that an estimate of the reasonably possible loss or range of losses arising directly from the proceeding (i.e., monetary damages or amounts paid in judgment or settlement) are not material. If we cannot estimate the probable or reasonably possible loss or range of losses arising from a legal proceeding, we have disclosed that fact. In assessing the materiality of a legal proceeding, we evaluate, among other factors, the amount of monetary damages claimed, as well as the potential impact of non-monetary remedies sought by plaintiffs (e.g., injunctive relief) that may require us to change our business practices in a manner that could have a material adverse impact on our business. With respect to the matters disclosed in this Note 13, we are unable to estimate the possible loss or range of losses that could potentially result from the application of such non-monetary remedies.

Amounts accrued for legal and regulatory proceedings for which we believe a loss is probable were not material for the year ended December 31, 2017. Except as otherwise noted for the proceedings described in this Note 13, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management's expectations, the impact on our operating results or financial condition for that reporting period could be material.

#### Regulatory Proceedings

We are required to comply with U.S. economic and trade sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"). We have self-reported to OFAC certain transactions that were inadvertently processed but subsequently identified as possible violations of U.S. economic and trade sanctions. In March 2015, we reached a settlement with OFAC regarding possible violations arising from our sanctions compliance practices between 2009 and 2013, prior to the implementation of our real-time transaction scanning program. Subsequently, we have self-reported additional transactions as possible violations, and we have received new subpoenas from OFAC seeking additional information about certain of these transactions. Such self-reported transactions could result in claims or actions against us, including litigation, injunctions, damage awards, fines or penalties, or require us to change our business practices in a manner that could result in a material loss, require significant management time, result in the diversion of significant operational resources or otherwise harm our business.

On March 28, 2016, we received a Civil Investigative Demand ("CID") from the Federal Trade Commission ("FTC") as part of its investigation to determine whether we, through our Venmo service, have been or are engaged in deceptive or unfair practices in violation of the Federal Trade Commission Act. The CID requested the production of documents and answers to written questions related to our Venmo service. We have cooperated with the FTC in connection with the CID.

#### Legal Proceedings

On January 12, 2017, a putative shareholder derivative action captioned *Silverman v. Schulman, et al.*, Case No. 5:17-cv-00162 (the "California Derivative Case") was filed in the U.S. District Court for the Northern District of California (the "Court"). The California Derivative Case was based on substantially similar allegations as the allegations underlying a putative securities class action captioned *Cho v. PayPal Holdings, Inc., et al.*, Case No. 3:16-cv-07371 (the "Securities Case"), which was filed in the Court and asserted claims relating to our disclosure in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016, that on March 28, 2016, we received a CID from the FTC as part of its investigation to determine whether we, through our Venmo service, have been or are engaged in deceptive or unfair practices in violation of the Federal Trade Commission Act. On February 8, 2017, the Court entered an order formally relating the California Derivative Case to the Securities Case and assigning the case to the same judge handling the Securities Case. On the same day, the Court also entered an order staying the California Derivative Case pending resolution of the defendants' anticipated motions to dismiss the Securities Case. On March 24, 2017, a second derivative action substantially similar to the California Derivative Case captioned *Seeman v. Schulman, et al.*, Case No. 1:17-cv-00318-UNA, was filed in the U.S. District Court for the District of Delaware (the "Delaware Derivative Case"). On

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

April 19, 2017, the Delaware court in the Delaware Derivative Case issued an order adopting a stipulation filed by the parties transferring the Delaware Derivative Case to the Court so that the Delaware Derivative Case could be consolidated with the pending California Derivative Case. On April 27 and 28, 2017, two additional shareholder derivative lawsuits substantially similar to the California Derivative Case and Delaware Derivative Case were filed in the Court. These cases are captioned *Sims v. Schulman, et al.*, Case No. 1:17-cv-02428-HRL, and *Liss v. Schulman, et al.*, Case No. 1:17-cv-02446-NC (together with the California Derivative Case and the Delaware Derivative Case, the “Derivative Cases”). The Derivative Cases are purportedly brought on behalf of the Company and allege that the Company’s Chief Executive Officer, Chief Financial Officer, former interim Chief Financial Officer, and members of its Board of Directors breached their fiduciary duties to the Company, violated Section 14(a) of the Exchange Act, and were unjustly enriched by, among other things, causing or permitting the Company to issue materially false and misleading statements or omissions regarding the Company’s compliance with applicable laws and regulations with respect to its Venmo service, as alleged in the Securities Case, and/or by permitting or causing the Company to engage in unfair trade practices through its Venmo service. The Derivative Cases seek, among other things, to recover unspecified compensatory damages on behalf of the Company arising out of the individual defendants’ alleged wrongful conduct. Although plaintiffs in the Derivative Cases do not seek relief against the Company, we have certain indemnification obligations to the individual defendants. On June 30, 2017, the Court issued an order approving a stipulation filed by the parties in the Derivative Cases that consolidates these cases and appoints co-lead plaintiffs’ counsel for the consolidated case, captioned *In re PayPal Holdings, Inc. Shareholder Derivative Litigation*, Lead Case No. 5:17-cv-00162-RS (the “Consolidated Derivative Case”). The Court’s order states that it applies to each purported derivative action that is subsequently filed in, removed to, or transferred to the Court, arising out of the same or substantially the same transactions or events as the Derivative Cases. On July 31, 2017, plaintiffs’ counsel designated the complaint filed in the *Liss* action as the operative complaint for the Consolidated Derivative Case. On October 5, 2017, another putative shareholder derivative suit was filed in the Court captioned *Iron Workers Local No. 25 Pension Fund v. John J. Donahoe, et al.*, Case No. 5:17-cv-05741-NC, that makes similar allegations and advances similar claims against the same defendants as those at issue in the Consolidated Derivative Case. Pursuant to the Court’s consolidation order, this shareholder derivative suit is part of the Consolidated Derivative Case. On September 28, 2017, we filed a motion to dismiss the operative complaint on grounds that plaintiffs lack standing to pursue claims on behalf of the Company because they did not make a pre-suit demand on the Company’s Board of Directors prior to filing the Derivative Cases and failed to establish that making such a demand would have been futile. That motion was heard by the Court on December 14, 2017. On January 18, 2018, the Court granted our motion to dismiss with leave to amend and gave plaintiffs 30 days from that date to file an amended complaint.

We have received subpoenas from the U.S. Department of Justice (“DOJ”) seeking the production of certain information related to our historical anti-money laundering program. We are cooperating with the DOJ in providing information in response to the subpoenas. We are unable to predict the outcome of the government’s investigation.

In November 2017, we announced that we had suspended the operations of TIO Networks (“TIO”) as part of an ongoing investigation of security vulnerabilities of the TIO platform. On December 1, 2017 we announced that we had identified evidence of unauthorized access to TIO’s network, including locations that stored personal information of some of TIO’s customers and customers of TIO billers and the potential compromise of personally identifiable information for approximately 1.6 million customers. We have received a number of governmental inquiries, including from state attorneys general, and we may be subject to additional governmental inquiries and investigations in the future. In addition, on December 6, 2017, a putative class action lawsuit captioned *Sgarlata v. PayPal Holdings, Inc., et al.*, Case No. 3:17-cv-06956 was filed in the U.S. District Court for the Northern District of California against the Company, its Chief Executive Officer, its Chief Financial Officer and Hamed Shahbazi, the former chief executive officer of TIO (the “Defendants”) alleging violations of federal securities laws. Specifically, the lawsuit alleges that Defendants made false or misleading statements or failed to disclose that TIO’s data security program was inadequate to safeguard the personally identifiable information of its users, those vulnerabilities threatened continued operation of TIO’s platform, the Company’s revenues derived from TIO services were thus unsustainable, and consequently, the Company overstated the benefits of the TIO acquisition, and, as a result, the Company’s public statements were materially false and misleading at all relevant times. The plaintiff seeks to represent a class of shareholders who acquired shares of the Company’s stock between February 14, 2017 through December 1, 2017 and seeks damages and attorneys’ fees, among other relief. We may be subject to additional litigation relating to TIO’s data security platform or the suspension of TIO’s operations in the future. See Note 3 —“Business Combinations” and Note 4—“Goodwill and Intangible Assets” to our consolidated financial statements for additional disclosure relating to the suspension of operations of TIO.

### General Matters

Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to patent disputes, and expect that we will increasingly be subject to additional patent infringement claims involving various aspects of our business as our products and services continue to expand in scope and complexity. Such claims may be brought directly or indirectly against our companies and/or against our customers (who may be

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

entitled to contractual indemnification under their contracts with us), and we are subject to increased exposure to such claims as a result of our acquisitions, particularly in cases where we are entering into new lines of business in connection with such acquisitions. We have in the past been forced to litigate such claims, and we believe that additional lawsuits alleging such claims will be filed against us. Intellectual property claims, whether meritorious or not, are time consuming and costly to defend and resolve, could require expensive changes in our methods of doing business or could require us to enter into costly royalty or licensing agreements on unfavorable terms or make substantial payments to settle claims or to satisfy damages awarded by courts.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business, including suits by our customers (individually or as class actions) alleging, among other things, improper disclosure of our prices, rules or policies, that our practices, prices, rules, policies or customer/user agreements violate applicable law or that we have acted unfairly and/or not acted in conformity with such prices, rules, policies or agreements. In addition to these types of disputes and regulatory inquiries, our operations are also subject to regulatory and/or legal review and/or challenges that tend to reflect the increasing global regulatory focus to which the payments industry is subject and, when taken as a whole with other regulatory and legislative action, such actions could result in the imposition of costly new compliance burdens on our business and customers and may lead to increased costs and decreased transaction volume and revenue. Further, the number and significance of these disputes and inquiries are increasing as we have grown larger, our business has expanded in scope (both in terms of the range of products and services that we offer and our geographical operations) and our products and services have increased in complexity. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, settlement payments, damage awards (including statutory damages for certain causes of action in certain jurisdictions), fines, penalties, injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.

### INDEMNIFICATION PROVISIONS

We entered into a separation and distribution agreement, a tax matters agreement, an operating agreement and various other agreements with eBay to govern the separation and relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations and could lead to disputes between us and eBay, which may be significant. In addition, the indemnity rights we have against eBay under the agreements may not be sufficient to protect us, and our indemnity obligations to eBay may be significant.

In the ordinary course of business, we include limited indemnification provisions in certain of our agreements with parties with whom we have commercial relationships, including our standard marketing, promotions, and application-programming-interface license (API) agreements. Under these contracts, we generally indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by any third-party with respect to our domain names, trademarks, logos, and other branding elements to the extent that such marks are related to the subject agreement. In a limited number of agreements, we have provided an indemnity for other types of third-party claims, which are indemnities mainly related to intellectual property rights. We have also provided an indemnity to our payments processors in the event of certain third-party claims or card association fines against the processor arising out of conduct by us or our customers. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular situation. To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

### OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2017 and 2016, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

### PROTECTION PROGRAMS

We provide merchants and consumers with protection programs on substantially all transactions completed through our Payments Platform, except for transactions using our gateway and Paydiant products. These programs protect both merchants and consumers from loss primarily due to fraud and counterparty performance. Our Buyer Protection Program provides protection to consumers for qualifying purchases by reimbursing the consumer for the full amount of the purchase if a purchased item does not arrive or does not match the seller's description. Our Seller Protection Programs provide protection to merchants against claims that a transaction was not authorized by the buyer or claims that an item was not received by covering the seller for the full amount of the payment on eligible sales.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

The maximum potential exposure under our protection programs is estimated to be the portion of total eligible transaction volume (TPV) for which buyer or seller protection claims may be raised under our existing user agreements. Since eligible transactions are typically completed in a period significantly shorter than the period under which disputes may be opened, and based on our historical losses to date, we do not believe that the maximum potential exposure is representative of our actual potential exposure. The actual amount of potential exposure cannot be quantified as we are unable to determine total eligible transactions where performance by a merchant or customer is incomplete or completed transactions that may result in a claim under our protection programs. We record a liability with respect to losses under these protection programs when they are probable and the amount can be reasonably estimated.

The following table provides management's estimate of the maximum potential exposure related to our protection programs as of December 31, 2017 and December 31, 2016:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
Maximum potential exposure	\$165,207	\$131,739

The following table provides the amount of allowance for transaction losses and negative customer balances related to our protection programs as of December 31, 2017 and December 31, 2016:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In millions)</b>	
Allowance for transaction losses and negative customer balances	\$266	\$222

### Note 14—Related Party Transactions

As of December 31, 2017, there were no material amounts payable to or amounts receivable from related parties. For all periods subsequent to the distribution, there were no material related party transactions.

Prior to the distribution, our business comprised the Payments segment of eBay and thus our transactions with eBay were considered related party transactions. In connection with the separation, we entered into a separation and distribution agreement as well as various other agreements that govern our relationships with eBay going forward, including an operating agreement, tax matters agreement, employee matters agreement, intellectual property matters agreement and colocation services agreements. Information included in this Note 14 with respect to eBay is strictly limited to our related party transactions with eBay prior to the separation (i.e., periods up to July 17, 2015). Following separation, transactions with eBay represent third-party transactions on an arms-length basis.

We earned net revenues of \$59 million from eBay and its subsidiaries during the year ended December 31, 2015. Prior to the distribution, we recovered certain amounts from eBay related to customer protection programs offered on eligible eBay purchases made with PayPal. These costs included the actual transaction losses associated with customer-filed claims as well as an allocation of salary-related expenses for our customer support teams working on customer claims and disputes related to eligible eBay purchases. Recoveries associated with transaction losses incurred on eligible eBay purchases during the year ended December 31, 2015 were \$27 million, which were recorded as a reduction to transaction and loan loss. Other costs recovered from eBay related to the customer protection programs during the year ended December 31, 2015 were \$12 million, and were included as a reduction to customer support and operations and general and administrative expenses in our consolidated statement of income. Following the distribution, eBay's customer protection programs are no longer administered by us, and therefore these costs are no longer reimbursed by eBay.

Prior to the distribution, we incurred user acquisition fees from eBay on payment volume which we processed from purchases made on eBay's platform. User acquisition fees during the year ended December 31, 2015 were \$64 million. Following the distribution, pursuant to the operating agreement, we incur referral services fees from eBay based on a fixed rate per new user.

Prior to the distribution, these consolidated financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and additional expenses related to

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to share based compensation. These expenses allocated to us by eBay were based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. We consider the expense allocation methodology and results to be reasonable for all periods presented. The corporate costs and allocation of expenses to us from eBay included within customer support and operations, sales and marketing, product development, and general and administrative expenses were \$303 million for the year ended December 31, 2015.

In the second and third quarter of 2015, pursuant to the Separation and Distribution Agreement between eBay and us, eBay transferred substantially all of the assets and liabilities and operations of eBay's payments business to PayPal, which was completed in June 2015 (the "capitalization"). As part of the capitalization, we received from eBay a contribution of cash of approximately \$3.8 billion, as well as a related estimated deferred tax liability of \$236 million associated with the foreign earnings that are not considered indefinitely reinvested. In the fourth quarter of 2015, we reassessed the measurement of the deferred tax liability and, based on updated valuation information, reduced the deferred tax liability balance to \$172 million as of December 31, 2015. The adjustment to deferred tax liability was recorded as a contribution from eBay and resulted in an increase to net parent investment within stockholders' equity. During the second and third quarter of 2015, eBay also contributed property and equipment with a net book value of approximately \$224 million and intangible assets with a net book value of approximately \$18 million. Additionally, we sold certain property and equipment to eBay with a gross carrying amount of \$63 million and a net book value of \$15 million for proceeds of approximately \$26 million. The proceeds in excess of net book value were recorded as a contribution from eBay and resulted in an increase to net parent investment within stockholders' equity.

### Note 15—Stock Repurchase Programs

In January 2016, our Board of Directors authorized a stock repurchase program that provided for the repurchase of up to \$2 billion of our common stock, with no expiration from the date of authorization. In April 2017, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to \$5 billion of our common stock, with no expiration from the date of authorization. This program became effective upon completion of the January 2016 stock repurchase program. The stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, may also be used to make opportunistic repurchases of our common stock to reduce outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives. However, any stock repurchases are subject to market conditions and other uncertainties and we cannot predict if or when any stock repurchases will be made. Moreover, we may terminate our stock repurchase programs at any time without notice.

The stock repurchase activity under our stock repurchase programs during the year ended December 31, 2017 is summarized as follows:

	Shares Repurchased	Average Price Paid per Share <sup>(1)</sup>	Value of Shares Repurchased	Remaining Amount Authorized
(In millions, except per share amounts)				
Balance as of January 2017				\$1,005
Repurchases of shares of common stock for three months ended:				
March 31, 2017	12.2	\$42.38	\$ 517	\$ 488
New Authorization in April 2017 of \$5 billion	—	\$ —	\$ —	\$5,488
June 30, 2017	1.8	\$49.41	\$ 89	\$5,399
September 30, 2017	1.7	\$59.49	\$ 100	\$5,299
December 31, 2017	4.0	\$74.30	\$ 300	\$4,999
Balance as of December 31, 2017	19.7		\$1,006	\$4,999

<sup>(1)</sup> Average price paid per share includes broker commissions.

These repurchased shares of common stock were recorded as treasury stock and were accounted for under the cost method. No repurchased shares of common stock have been retired.



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 16 — Stock-Based and Employee Savings Plans

Prior to the separation (i.e., periods up to July 17, 2015), PayPal employees participated in eBay's equity incentive plans, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units ("PBRsUs"). In addition, certain PayPal employees participated in eBay's employee stock purchase plan. All awards granted under these plans consisted of eBay common shares. PayPal's consolidated statement of income reflected compensation expense for these stock-based plans associated with the portion of eBay's equity incentive plans in which PayPal employees participated.

Following separation, outstanding awards granted to PayPal employees under eBay's equity incentive plans were converted into PayPal awards under PayPal's equity incentive plans based on a conversion ratio. This conversion ratio was determined as the closing per-share price of eBay shares on the last regular trading session prior to separation divided by the opening per-share price of PayPal shares on the first regular trading session after separation. There was no significant incremental stock-based compensation expense recorded as a result of the share conversions.

#### EQUITY INCENTIVE PLANS

The Board of Directors adopted the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan (the "Plan") on June 16, 2015. Under the terms of the Plan, equity awards, including stock options, RSUs, restricted stock awards, PBRsUs, deferred stock units, and stock payments may be granted to our directors, officers and employees. At December 31, 2017, there were 79 million shares authorized under our equity incentive plans and 46 million shares were available for future grant. Shares issued as a result of stock option exercises and the release of stock awards were funded primarily with the issuance of new shares of common stock.

All stock options granted under these plans generally vest 12.5% six months from the date of grant (or 25% one year from the date of hire for grants to new employees) with the remainder vesting at a rate of 2.08% per month thereafter, and generally expire seven years from the date of grant. The cost of stock options is determined using the Black-Scholes option pricing model on the date of grant.

RSUs are granted to eligible employees under our equity incentive plans. In general, RSUs vest in equal annual installments over a period of three to four years, are subject to an employee's continuing service to us and do not have an expiration date. The cost of RSUs granted prior to the separation was determined using the fair value of eBay's common stock on the date of grant. The cost of RSUs granted following separation was determined using the fair value of PayPal's common stock on the date of grant.

Certain of our executives are eligible to receive PBRsUs, which are equity awards that may be earned based on an initial target number with the final number of PBRsUs that may be vested and settled determined based on the Company's performance against pre-established performance metrics over a predefined performance period. PBRsUs granted under eBay's equity incentive plans generally had two-year performance periods with one-half of the grant vesting in March following the end of the performance period and the remaining one-half vesting more than one year following the completion of the performance period. In the first quarter of 2016, the Compensation Committee approved a revised structure for PBRsUs granted under PayPal's 2015 Equity Incentive Award Plan to officers and certain employees providing services to the Company. PBRsUs granted under PayPal's 2015 Equity Incentive Award Plan have one to three-year performance periods with cliff vesting following the completion of the performance period, subject to the Committee's approval of the level of achievement against the pre-established performance targets. Over the performance period, the number of PBRsUs that may be issued and related stock-based compensation expense that is recognized is adjusted upward or downward based upon the probability of achieving the approved performance targets against the performance metrics. Depending on the probability of achieving the pre-established performance targets, the PBRsUs issued could range from 0% to 200% of the target amount.

#### EMPLOYEE STOCK PURCHASE PLAN

Prior to separation, eligible employees participated in eBay's employee stock purchase plan. Effective July 17, 2015, the Board of Directors adopted the PayPal Holdings, Inc. Employee Stock Purchase Plan ("ESPP"). Under the terms of this plan, shares of our common stock may be purchased over an offering period with a maximum duration of two years at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last business day of each six-month purchase period within the offering period. Employees may contribute between 2% and 10% of their gross compensation during an offering period to purchase shares, but not more than the statutory limitation of \$25,000 per year. The company stock purchased through the ESPP is considered outstanding and is included in the weighted-average outstanding shares for purposes of computing basic and diluted earnings per share. For the year ended December 31, 2017, our employees purchased 2.7 million shares of PayPal common stock at an average price of \$34.06. For the year ended December 31, 2016, our employees purchased 2.7 million shares of PayPal common



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

stock at an average price of \$29.49. For the year ended December 31, 2015, our employees purchased 0.9 million shares of eBay common stock at an average price of \$44.37 and 1.2 million shares of PayPal common stock at an average price of \$28.12. As of December 31, 2017, approximately 5.4 million shares were reserved for future issuance under the ESPP.

### STOCK OPTION ACTIVITY

The following table summarizes stock option activity of our employees under our equity incentive plans for the year ended December 31, 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(In thousands, except per share amounts and years)			
Outstanding at January 1, 2017	4,288	\$28.65		
Granted and assumed	308	\$13.94		
Exercised	(1,986)	\$25.66		
Forfeited/expired/canceled	(170)	\$32.90		
Outstanding at December 31, 2017	2,440	\$28.94	4.33	\$111,371
Expected to vest	731	\$28.01	5.48	\$34,052
Options exercisable	1,653	\$29.48	3.76	\$74,561

The weighted average grant date fair value of options granted to our employees (including options assumed from acquisitions) during the years 2017, 2016 and 2015 was \$49.47, \$8.79 and \$11.20, respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock at December 31, 2017. During the years 2017 and 2016, the aggregate intrinsic value of options exercised under PayPal's equity incentive plans was \$53 million and \$31 million, respectively, determined as of the date of option exercise. During the year 2015, the aggregate intrinsic value of options exercised under eBay's and PayPal's equity incentive plans was \$72 million, determined as of the date of option exercise. At December 31, 2017, 2.4 million options were in-the-money.

### RSU AND PBRU ACTIVITY

The following table summarizes the RSUs and PBRUs granted under our equity incentive plans as of December 31, 2017 and changes during the year ended December 31, 2017:

	Units	Weighted Average Grant- Date Fair Value (per share)
	(In thousands, except per share amounts)	
Outstanding at January 1, 2017	29,185	\$37.06
Awarded	19,744	\$44.24
Vested	(10,912)	\$36.70
Forfeited	(4,142)	\$38.98
Outstanding at December 31, 2017	33,875	\$41.14
Expected to vest	30,506	

During the years 2017 and 2016, the aggregate intrinsic value of RSUs and PBRUs vested under PayPal's equity incentive plans was \$519 million and \$378 million, respectively. During the year 2015, the aggregate intrinsic value of RSUs and PBRUs vested under eBay's and PayPal's equity incentive plans was \$315 million.

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## Notes to Consolidated Financial Statements—(Continued)

In the year ended December 31, 2017, the Company granted 2.9 million PBRsUs with a one-year performance period and cliff vesting following the completion of the performance period in February 2018 (one year from the annual incentive award cycle grant date) and 1.3 million PBRsUs with a three-year performance period.

### STOCK-BASED COMPENSATION EXPENSE

We record stock-based compensation expense for our equity incentive plans in accordance with the provisions of the authoritative accounting guidance, which requires the measurement and recognition of compensation expense based on estimated fair values.

The impact on our results of operations of recording stock-based compensation expense under the eBay and PayPal equity incentive plans for the years ended December 31, 2017, 2016 and 2015 was as follows:

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		
Customer support and operations	\$ 142	\$ 85	\$ 62
Sales and marketing	140	84	52
Product development	240	139	132
General and administrative	210	130	94
Depreciation and amortization	12	6	7
Total stock-based compensation expense	\$744	\$444	\$347
Capitalized as part of internal use software and website development costs	\$ 24	\$ 13	\$ 7
Income tax benefit recognized for stock-based compensation arrangements	\$ 218	\$ 127	\$ 98

As of December 31, 2017, there was approximately \$830 million of unearned stock-based compensation estimated to be expensed from 2018 through 2019. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel all or a portion of the remaining unearned stock-based compensation expense. Future unearned stock-based compensation will increase to the extent we grant additional equity awards, change the mix of grants between stock options and RSUs or assume unvested equity awards in connection with acquisitions.

### STOCK OPTION VALUATION ASSUMPTIONS

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for the years ended December 31, 2017, 2016 and 2015:

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Risk-free interest rate	1.6%	1.5%	1.4%
Expected life (in years)	3.3	4.6	4.3
Dividend yield	—	—	—
Expected volatility	26%	25%	26%

For periods prior to separation, our computation of expected volatility was based on a combination of historical and market-based implied volatility from traded options on eBay's stock. The computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules, and expectations of future employee behavior. The interest rate for periods within the contractual life of the award was based on the U.S. Treasury yield curve in effect at the time of grant.

For periods subsequent to the separation, the risk-free interest rate for periods within the contractual life of the award was based upon the U.S. Treasury yield curve in effect at the time of the grant. Due to our limited history of stock option exercises, we estimated the expected term of options granted based on the midpoint between the vesting date and the end of the contractual

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

term using the “simplified” method under the SEC guidance. The computation of expected volatility for assumed stock option awards was based on a combination of historical and implied volatility from traded options on PayPal’s stock.

### EMPLOYEE SAVING PLANS

Prior to separation, eligible U.S. employees participated in eBay’s savings plan, which qualifies under Section 401(k) of the Code. Effective July 17, 2015, the Board of Directors adopted the PayPal Holdings, Inc. Deferred Compensation Plan, which also qualifies under Section 401(k) of the Code. Under the terms of this plan, participating U.S. employees may contribute up to 50% of their eligible compensation, but not more than statutory limits. In 2017, 2016 and 2015, under the PayPal and eBay savings plans, eligible employees received one dollar for each dollar contributed, up to 4% of each employee’s eligible salary, subject to a maximum employer contribution of \$10,800, \$10,600 and \$10,600, respectively, per employee. Our non-U.S. employees are covered by other savings plans. For the years ended December 31, 2017, 2016 and 2015, the matching contribution expense for our U.S. and international savings plans were approximately \$47 million, \$42 million and \$42 million, respectively.

### Note 17—Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of the base erosion anti-abuse tax (“BEAT”), a new minimum tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. The change to a modified territorial tax system resulted in a one-time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the “Transition Tax”), with future distributions not subject to U.S. federal income tax when repatriated. A majority of the provisions in the Tax Act are effective January 1, 2018.

In response to the Tax Act, the SEC staff issued guidance on accounting for the tax effects of the Tax Act. The guidance provides a one-year measurement period for companies to complete the accounting. We reflected the income tax effects of those aspects of the Tax Act for which the accounting is complete. To the extent our accounting for certain income tax effects of the Tax Act is incomplete but we are able to determine a reasonable estimate, we recorded a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional estimate of discrete net tax expense of \$180 million for the period ended December 31, 2017. This discrete expense consists of provisional estimates of \$1,468 million net expense for the Transition Tax payable in installments over eight years, \$1,295 million net benefit for the decrease in our deferred tax liability on unremitted foreign earnings, and \$7 million net expense for remeasurement of our deferred tax assets/liabilities for the corporate rate reduction and changes in our valuation allowance.

We have not completed our accounting for the income tax effects of certain elements of the Tax Act. The Tax Act creates a new requirement that certain income such as Global Intangible Low-Taxed Income (“GILTI”) earned by a controlled foreign corporation (“CFC”) must be included in the gross income of the CFC U.S. shareholder. Because of the complexity of the new GILTI and BEAT tax rules, we are continuing to evaluate these provisions of the Tax Act and whether taxes due on future U.S. inclusions related to GILTI or BEAT should be recorded as a current-period expense when incurred, or factored into a company’s measurement of its deferred taxes. As a result, we have not included an estimate of the tax expense or benefit related to these items for the period ended December 31, 2017.

For periods ended on or prior to July 17, 2015, we were a member of the eBay consolidated group and our U.S. taxable income was included in the consolidated U.S. federal income tax return of eBay as well as in returns filed by eBay with certain state and local taxing jurisdictions. Our foreign income tax returns are filed on a separate company basis. For periods ended on or prior to July 17, 2015, our income tax liability has been computed and presented herein under the “separate return method” as if PayPal were a separate tax paying entity, as modified by the benefits-for-loss approach. Accordingly, our operating losses and other tax attributes are characterized as utilized when those attributes have been utilized by other members of the eBay consolidated group; however, the benefits-for-loss approach does not impact our tax expense. Federal and unitary state income taxes incurred for periods ended on or prior to July 17, 2015 are remitted to eBay pursuant to a tax sharing agreement between the companies.

In connection with the distribution, eBay and PayPal entered into various agreements that govern the relationship between the parties going forward, including a tax matters agreement. The tax matters agreement was entered into on the distribution date. Under the tax matters agreement, eBay is generally responsible for all additional taxes (and will be entitled to all related refunds of

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

taxes) imposed on eBay and its subsidiaries (including subsidiaries that were transferred to PayPal pursuant to the separation) arising after the distribution date with respect to the taxable periods (or portions thereof) ended on or prior to July 17, 2015, except for those taxes for which PayPal has reflected an unrecognized tax benefit in its financial statements on the distribution date.

The components of income (loss) before income taxes are as follows:

	Year Ended December 31,		
	2017	2016	2015
	(In millions)		
United States	\$ (593)	\$ (342)	\$ (253)
International	2,793	1,973	1,741
Income before income taxes	\$2,200	\$1,631	\$1,488

The income tax expense is composed of the following:

	Year Ended December 31,		
	2017	2016	2015
	(In millions)		
Current:			
Federal	\$ 1,522	\$ 44	\$ 34
State and local	36	19	(5)
Foreign	146	115	104
	\$ 1,704	\$ 178	\$ 133
Deferred:			
Federal	\$(1,304)	\$ 90	\$ 126
State and local	(3)	(35)	1
Foreign	8	(3)	—
	(1,299)	52	127
Income tax expense	\$ 405	\$230	\$260

The following is a reconciliation of the difference between the effective income tax rate and the federal statutory rate.

	Year Ended December 31,		
	2017	2016	2015
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.8%	(1.0)%	(0.3)%
Foreign income taxed at different rates	(25.7)%	(23.2)%	(20.9)%
Stock-based compensation expense	(0.8)%	1.6%	1.5%
Tax credits	(1.4)%	(1.0)%	(0.7)%
Change in valuation allowances	1.4%	0.5%	0.3%
U.S. tax reform (the Tax Act)	8.2%	—%	—%
Other	0.9%	2.2%	2.6%
Effective income tax rate	18.4%	14.1%	17.5%

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

The difference between the effective income tax rate and the federal statutory rate of 35.0% to income before income taxes is primarily the result of foreign income taxed at different rates and, for the year ended December 31, 2017, the effects of the Tax Act discussed above.

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the year in which the differences are expected to reverse. Significant deferred tax assets and liabilities consist of the following:

	As of December 31,	
	2017	2016
	(In millions)	
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 134	\$ 84
Accruals and allowances	118	187
Partnership investment	7	15
Stock-based compensation	124	99
Net unrealized (gains) losses	10	14
Total deferred tax assets	393	399
Valuation allowance	(74)	(24)
Net deferred tax assets	\$ 319	\$ 375
Deferred tax liabilities:		
Unremitted foreign earnings	\$ (39)	\$ (1,246)
Fixed assets and other intangibles	(145)	(226)
Acquired intangibles	(49)	(95)
Net unrealized losses (gains)	—	(2)
Total deferred tax liabilities	(233)	(1,569)
Net deferred tax assets (liabilities)	\$ 86	\$ (1,194)

The following table shows the deferred tax assets and liabilities within our consolidated balance sheet.

	<b>Balance Sheet Location</b>	<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
		<b>(In millions)</b>	
Total deferred tax assets (non-current)	Other assets	\$95	\$ 21
Total deferred tax liabilities (non-current)	Long-term liabilities	(9)	(1,215)
Total net deferred tax assets (liabilities)		\$86	\$ (1,194)

As of December 31, 2017, our federal, state and foreign net operating loss carryforwards for income tax purposes were approximately \$64 million, \$332 million, and \$177 million, respectively. The federal and state net operating loss carryforwards are subject to various limitations under Section 382 of the Code. If not utilized, the federal net operating loss carryforwards will begin to expire in 2019, and the state net operating loss carryforwards will begin to expire in 2018. Approximately \$26 million of the foreign net operating loss carryforwards will expire in 2034 and a majority of the remainder has no expiration date and may be carried forward indefinitely. As of December 31, 2017, our federal and state tax credit carryforwards for income tax purposes were approximately \$25 million and \$101 million, respectively. The federal tax credits will begin to expire in 2032. Most of the state tax credits may be carried forward indefinitely.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. During the years ended December 31, 2017, and 2016, we increased our valuation allowance by \$50 million and \$11 million, respectively. At December 31, 2017 and 2016, we maintained a valuation

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

allowance with respect to certain of our deferred tax assets relating to operating losses in certain states and foreign jurisdictions and tax credits in certain states that we believe are not likely to be realized.

Immediately prior to enactment of the Tax Act on December 22, 2017, we had \$10.0 billion of undistributed foreign earnings. We had accrued \$1,334 million of deferred U.S. income and foreign withholding taxes on the portion of these earnings that were not intended to be indefinitely reinvested in our international operations. Upon passage of the Tax Act, all \$10.0 billion of undistributed foreign earnings became subject to U.S. federal tax at a reduced rate payable over an 8-year period. As a result, we reversed \$1,295 million of deferred U.S. income and foreign withholding taxes and recorded a long-term U.S. tax payable of \$1,468 million. Due to the change in U.S. federal tax law, management has decided not to indefinitely reinvest any of our unremitted foreign earnings as of December 31, 2017. We have accrued \$39 million of deferred U.S. state and foreign withholding taxes on the \$10.0 billion of undistributed foreign earnings. This is a provisional estimate pending further legislative action from the states regarding conformity with the Tax Act.

We benefit from tax rulings concluded in several different jurisdictions, most significantly Singapore and Luxembourg. These rulings result in significantly lower rates of taxation on certain classes of income and require various thresholds of investment and employment in those jurisdictions. We review our compliance on an annual basis to ensure we continue to meet our obligations under these tax rulings. These rulings resulted in tax savings of approximately \$443 million, \$310 million and \$285 million in 2017, 2016 and 2015, respectively. The benefit of these tax rulings on our net income per share (diluted) was approximately \$0.36, \$0.25 and \$0.23 in 2017, 2016 and 2015, respectively. These tax rulings are currently in effect and expire over periods ranging from 2020 to 2021.

The following table reflects changes in unrecognized tax benefits for the periods presented below:

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		
Gross amounts of unrecognized tax benefits as of the beginning of the period	\$ 312	\$267	\$165
Increases related to prior period tax positions	61	14	39
Decreases related to prior period tax positions	(23)	(18)	(4)
Increases related to current period tax positions	112	51	68
Settlements	(35)	(1)	(1)
Statute of limitation expirations	(3)	(1)	—
Gross amounts of unrecognized tax benefits as of the end of the period	\$424	\$312	\$267

If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of \$406 million.

During all years presented, we recognized interest and penalties related to uncertain tax positions in income tax expense. In 2017 we recognized net interest and penalties of \$13 million in income tax expense. The amount of interest and penalties accrued as of December 31, 2017 and 2016 was approximately \$75 million and \$67 million, respectively.

We are subject to taxation in the U.S. and various state and foreign jurisdictions. We are currently under examination by certain tax authorities for the 2003 to 2015 tax years. The material jurisdictions in which we are subject to examination by tax authorities for tax years after 2002 primarily include the U.S. (Federal and California), France, Germany, India, Israel, Italy, and Singapore. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations. During 2017, a number of audits were closed/settled including one with Israel and another with the United Kingdom.

Although the timing of the resolution of these audits is uncertain, we do not expect the total amount of unrecognized tax benefits as of December 31, 2017 will materially change in the next 12 months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

### Note 18—Restructuring

In the first quarter of 2017, management approved a plan to implement a strategic reduction of the existing global workforce. The reduction was substantially completed by the end of 2017. We recognized \$40 million of restructuring expenses related to employee severance and benefits classified in restructuring and other charges in our consolidated statement of income during the year ended December 31, 2017, substantially all of which were paid by the end of 2017.

No restructuring expenses were recognized during the year ended December 31, 2016.

In January 2015, at a regular meeting of the eBay board of directors (the “eBay Board”), the eBay Board approved a plan to implement a strategic reduction of its existing global workforce. The reduction was completed by the end of 2015. We recognized \$48 million of restructuring expenses classified in restructuring and other charges in our consolidated statement of income during the year ended December 31, 2015, all of which were paid by the end of 2015.

### Note 19—Accumulated Other Comprehensive (Loss) Income

The following table summarizes the changes in accumulated balances of other comprehensive income for the year ended December 31, 2017:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
(In millions)					
Beginning balance	\$ 131	\$ (5)	\$(68)	\$ 1	\$ 59
Other comprehensive income (loss) before reclassifications	(225)	(16)	43	5	(193)
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	17	(9)	—	—	8
Net current period other comprehensive income (loss)	(242)	(7)	43	5	(201)
Ending balance	\$ (111)	\$(12)	\$(25)	\$ 6	\$(142)

The following table summarizes the changes in accumulated balances of other comprehensive income for the year ended December 31, 2016:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax (Expense) Benefit	Total
(In millions)					
Beginning balance	\$ 57	\$(16)	\$(53)	\$ 3	\$ (9)
Other comprehensive income (loss) before reclassifications	193	7	(15)	(2)	183
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	119	(4)	—	—	115
Net current period other comprehensive income	74	11	(15)	(2)	68
Ending balance	\$ 131	\$ (5)	\$(68)	\$ 1	\$ 59



# PayPal Holdings, Inc.

## Notes to Consolidated Financial Statements—(Continued)

The following table provides details about reclassifications out of accumulated other comprehensive income for the years ended December 31, 2017 and 2016:

Details about Accumulated Other Comprehensive Income Components	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement of Income
	Year Ended December 31,		
	2017	2016	
	(In millions)		
Gains (losses) on cash flow hedges-foreign exchange contracts	\$ 17	\$119	Net revenues
Unrealized losses on investments	(9)	(4)	Other income (expense), net
	\$ 8	\$115	Income before income taxes
	—	—	Income tax expense
Total reclassifications for the period	\$ 8	\$115	Net income

# PayPal Holdings, Inc.

## Supplementary Data — Quarterly Unaudited Financial Data

The following tables present certain unaudited consolidated quarterly financial information for the years ended December 31, 2017 and 2016.

	<b>2017 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>(Unaudited, in millions, except per share amounts)</b>			
Net revenues	\$2,975	\$3,136	\$3,239	\$3,744
Net income	\$ 384	\$ 411	\$ 380	\$ 620
Net income per share—basic	\$ 0.32	\$ 0.34	\$ 0.32	\$ 0.52
Net income per share—diluted	\$ 0.32	\$ 0.34	\$ 0.31	\$ 0.50
Weighted average shares:				
Basic	1,203	1,202	1,202	1,203
Diluted	1,216	1,215	1,223	1,228

	<b>2016 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>(Unaudited, in millions, except per share amounts)</b>			
Net revenues	\$2,544	\$2,650	\$2,667	\$2,981
Net income	\$ 365	\$ 323	\$ 323	\$ 390
Net income per share—basic	\$ 0.30	\$ 0.27	\$ 0.27	\$ 0.32
Net income per share—diluted	\$ 0.30	\$ 0.27	\$ 0.27	\$ 0.32
Weighted average shares:				
Basic	1,216	1,210	1,207	1,207
Diluted	1,225	1,215	1,214	1,216

# PayPal Holdings, Inc.

## Financial Statement Schedule

The Financial Statement Schedule II—VALUATION AND QUALIFYING ACCOUNTS is filed as part of this Annual Report on Form 10-K.

	Balance at Beginning of Period	Charged/ (Credited) to Net Income	Charges Utilized/ (Write-offs)	Balance at End of Period
(In millions)				
<b>Allowance for Transaction Losses and Negative Customer Balances</b>				
Year Ended December 31, 2015	\$166	\$ 511	\$ (492)	\$ 185
Year Ended December 31, 2016	185	655	(618)	222
Year Ended December 31, 2017	\$222	\$823	\$ (779)	\$266
<b>Allowance for Loans and Interest Receivable</b>				
Year Ended December 31, 2015	\$195	\$385	\$ (347)	\$233
Year Ended December 31, 2016	233	555	(449)	339
Year Ended December 31, 2017	\$339	\$274	\$ (484)	\$129

# Exhibit Index

Exhibit Number	Exhibit Description	Filed with this Form 10-K	Incorporated by Reference	
			Form	Date Filed
2.01	Separation and Distribution Agreement by and between eBay Inc. and PayPal Holdings, Inc.		10-12B/A	6/26/2015
2.02	Purchase and Sale Agreement, dated as of November 10, 2017, by and between Synchrony Bank and Bill Me Later, Inc.		8-K	11/16/2017
2.03	Purchase and Sale Agreement, dated as of November 10, 2017, by and between Synchrony Bank and PayPal (Europe) SÀ R.L. et CIE, S.C.A.		8-K	11/16/2017
3.01	PayPal Holdings, Inc. Restated Certificate of Incorporation		10-Q	7/27/2017
3.02	PayPal Holdings, Inc. Amended and Restated Bylaws.	X		1/18/2018
10.01	Operating Agreement by and among eBay Inc., eBay International AG, PayPal Holdings, Inc., PayPal, Inc., PayPal Pte. Ltd. and PayPal Payments Pte. Holdings S.C.S., dated July 17, 2015.		8-K	7/20/2015
10.02	Amendment, dated June 30, 2016, to the Operating Agreement by and among eBay Inc., eBay International AG, PayPal Holdings, Inc., PayPal, Inc., PayPal Pte. Ltd. and PayPal Payments Pte. Holdings S.C.S., dated July 17, 2015.		10-Q	7/26/2016
10.03	Tax Matters Agreement by and between eBay Inc. and PayPal Holdings, Inc., dated July 17, 2015.		8-K	7/20/2015
10.04	Employee Matters Agreement by and between eBay Inc. and PayPal Holdings, Inc., dated July 17, 2015.		8-K	7/20/2015
10.05	Intellectual Property Matters Agreement by and among eBay Inc., eBay International AG, PayPal Holdings, Inc., PayPal, Inc., PayPal Pte. Ltd. and PayPal Payments Pte. Holdings S.C.S., dated July 17, 2015.		8-K	7/20/2015
10.06	Credit and Guarantee Agreement, dated as of July 17, 2015, by and among PayPal Holdings, Inc., PayPal, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, and the other parties thereto.		8-K	7/20/2015
10.07	364-Day Credit and Guarantee Agreement, dated as of December 5, 2017, by and among PayPal Holdings, Inc., PayPal, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.		8-K	12/6/2017
10.08+	PayPal Employee Incentive Plan, as amended and restated.		DEF 14-A	4/14/2016
10.09+	PayPal Holdings, Inc. 2015 Equity Incentive Award Plan, as amended and restated.		DEF 14-A	4/14/2016
10.10+	PayPal Holdings, Inc. Deferred Compensation Plan.		8-K	7/20/2015
10.11+	PayPal Holdings, Inc. Change in Control Severance Plan for Key Employees, dated June 16, 2015.		10-12B/A	6/18/2015
10.12+	PayPal Holdings, Inc. SVP and Above Standard Severance Plan, dated June 16, 2015.		10-12B/A	6/18/2015
10.13	Form of Indemnity Agreement between PayPal Holdings, Inc. and individual directors and officers.		10-12B/A	5/14/2015
10.14+	Form of Global Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan.		10-12B/A	5/14/2015
10.15+	Form of Global Performance Based Restricted Stock Unit Award Grant Notice and Performance Based Restricted Stock Unit Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan, as amended and restated.		10-Q	4/27/2017

Exhibit Number	Exhibit Description	Filed with this Form 10-K	Incorporated by Reference	
			Form	Date Filed
10.16+	Form of Global Notice of Grant of Stock Option and Stock Option Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan.		10-12B/A	5/14/2015
10.17+	Form of Director Annual Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan.		10-12B/A	5/14/2015
10.18+	Form of Electing Director Quarterly Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan.		10-12B/A	5/14/2015
10.19+	Form of PayPal Holdings, Inc. Employee Stock Purchase Plan.		10-12B/A	5/14/2015
10.20+	Offer Letter dated September 29, 2014 between eBay Inc. and Daniel Schulman.		10-12B/A	5/14/2015
10.21+	Amendment dated December 31, 2014 to Offer Letter between eBay Inc. and Daniel Schulman.		10-12B/A	5/14/2015
10.22+	Letter dated April 7, 2015 from eBay Inc. to Louise Pentland.		10-K	2/11/2016
10.23+	Letter dated April 13, 2015 from eBay Inc. to Jonathan Auerbach.		10-K	2/11/2016
10.24+	Letter dated May 19, 2015 from eBay Inc. to William Ready.		10-12B/A	6/2/2015
10.25+	Letter Agreement dated July 29, 2015 between John Rainey and PayPal Holdings, Inc.		10-Q	10/29/2015
10.26+	Letter Agreement, dated April 17, 2016, between Aaron Karczmer and PayPal Holdings, Inc.		10-Q	4/27/2017
10.27+	Letter dated May 5, 2013 from eBay Inc. to Tomer Barel.		10-K	2/11/2016
10.28+	Letter Agreement, dated August 22, 2017, between Tomer Barel and PayPal Holdings, Inc.		10-Q	10/24/2017
10.29+	Independent Director Compensation Policy.	X		
21.01	List of Subsidiaries.	X		
23.01	PricewaterhouseCoopers LLP consent.	X		
24.01	Power of Attorney (see signature page).	X		
31.01	Certification of PayPal Holdings, Inc.'s Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.	X		
31.02	Certification of PayPal Holdings, Inc.'s Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.	X		
32.01	Certification of PayPal Holdings, Inc.'s Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.	X		
32.02	Certification of PayPal Holdings, Inc.'s Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.	X		
101.INS	XBRL Instance Document	X		
101.SCH	XBRL Taxonomy Extension Schema Document	X		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X		

+ Indicates a management contract or compensatory plan or arrangement

# Signatures

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on February 7, 2018.

PayPal Holdings, Inc.

By: /s/ Daniel H. Schulman

Name: Daniel H. Schulman

Title: President, Chief Executive Officer and Director

# Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel H. Schulman, John D. Rainey, A. Louise Pentland, Brian Y. Yamasaki and Aaron A. Anderson, and each or any one of them, each with the power of substitution, his or her attorney-in-fact, to sign any amendments to this report, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 7, 2018.

**Principal Executive Officer:**

 By: /s/ Daniel H. Schulman

**Daniel H. Schulman**  
President, Chief Executive Officer and Director

**Principal Financial Officer:**

 By: /s/ John D. Rainey

**John D. Rainey**  
Executive Vice President, Chief Financial Officer

**Principal Accounting Officer:**

 By: /s/ Aaron A. Anderson

**Aaron A. Anderson**  
Vice President, Chief Accounting Officer

**Additional Directors**

 By: /s/ Rodney C. Adkins

**Rodney C. Adkins**  
Director

 By: /s/ Wences Casares

**Wences Casares**  
Director

 By: /s/ Jonathan Christodoro

**Jonathan Christodoro**  
Director

 By: /s/ John J. Donahoe

**John J. Donahoe**  
Director

 By: /s/ David W. Dorman

**David W. Dorman**  
Director

 By: /s/ Belinda Johnson

**Belinda Johnson**  
Director

 By: /s/ Gail J. McGovern

**Gail J. McGovern**  
Director

 By: /s/ David M. Moffett

**David M. Moffett**  
Director

 By: /s/ Ann M. Sarnoff

**Ann M. Sarnoff**  
Director

 By: /s/ Frank D. Yeary

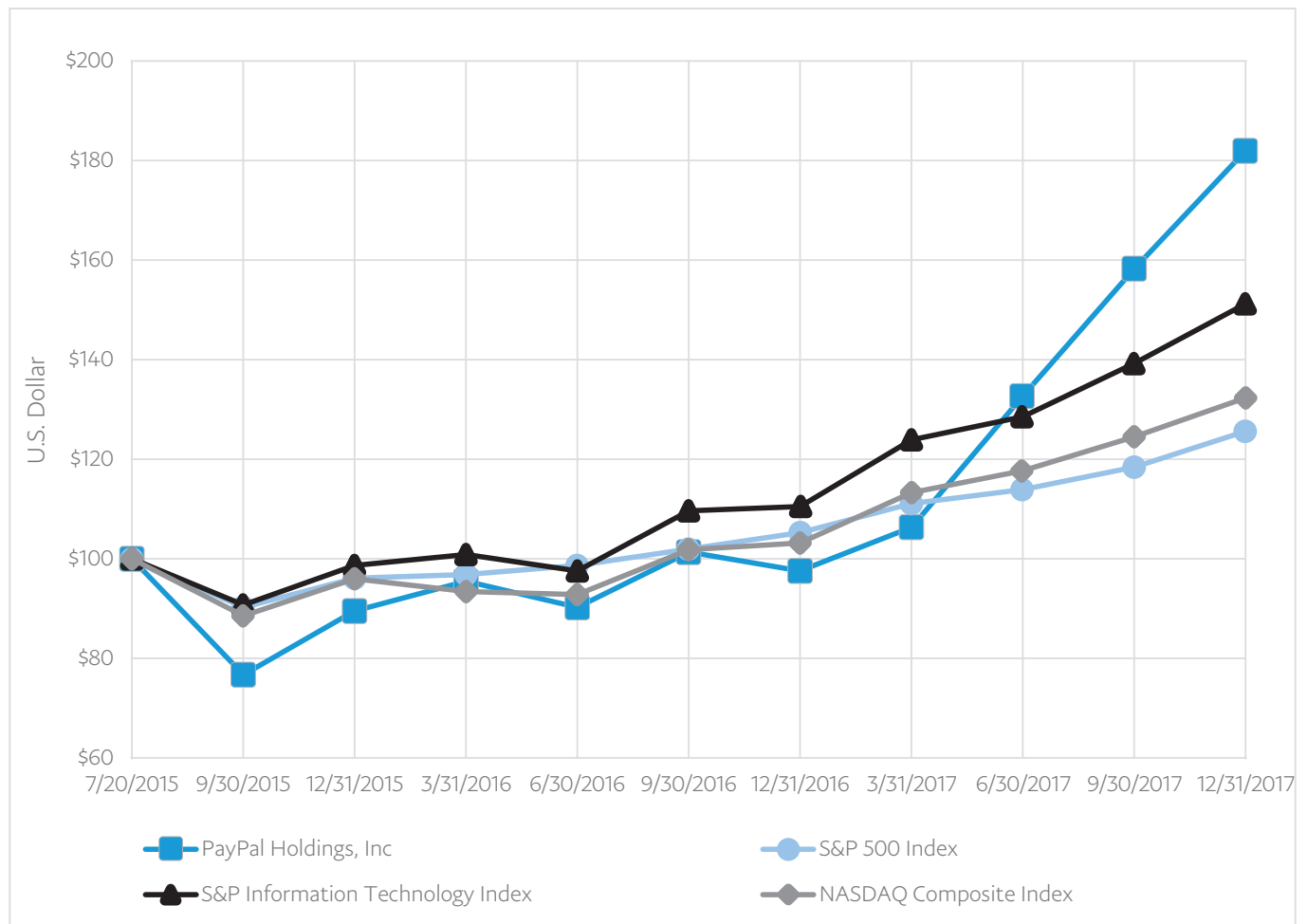
**Frank D. Yeary**  
Director



# Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission (the "SEC") for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Security Act of 1933.

The graph below shows the cumulative total stockholder return of any investment of \$100 in our common stock during the period from July 20, 2015 (the date our common stock began "regular way" trading on The Nasdaq Stock Market) through December 31, 2017, in comparison to the NASDAQ Composite Index, the S&P 500 Index and the S&P 500 Information Technology Index. These indices are included only for comparative purposes as required by the SEC rules and do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of our common stock and they are not intended to forecast possible future performance of our common stock.



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